



				Increase	Increase		Increase
All Households	\$309	\$309	\$309	\$309	\$309	\$309	\$309
Bottom 20 Percent	\$249	\$142	\$100	\$62	\$39	\$41	\$7
Second 20 Percent	\$330	\$214	\$199	\$148	\$143	\$160	\$62
Middle 20 Percent	\$359	\$312	\$294	\$236	\$248	\$297	\$163
Fourth 20 Percent	\$336	\$423	\$414	\$423	\$414	\$469	\$348
Top 20 Percent	\$291	\$589	\$713	\$901	\$944	\$806	\$1,277

Source: Andrew Chamberlain and Gerald Prante, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991 - 2004," *Tax Foundation Working Paper*, No 1.

Not only are the payers of cigarette taxes poorer as a group than the payers of these other taxes, but there are fewer of them. The burden on the lowest-earning 20 percent of households from a cigarette tax is 37 times heavier than if the government raised the money with the federal income tax.

### **High Cigarette Taxes Encourage Smuggling and Associated Crime**

Higher cigarette taxes also mean more smuggling, as many states are learning.<sup>[2]</sup> Today a pack of brand name cigarettes can be had for as little as \$1.25 in low-tax jurisdictions around the world. Due mostly to federal, state and local taxes, the U.S. price for that same pack can reach many times that amount. When smugglers move just one shipping container containing 200,000 packs into the U.S., the profit potential is a cool \$1 million.

Tax evasion is by no means the only crime that will rise in the wake of a much higher federal cigarette tax. Cigarettes are often the product of choice for thieves since the development of an active black market creates a place where they can quickly be sold for cash. Across the country cigarette tax hikes have been accompanied by tobacco-related crime waves that threaten truck drivers and retail clerks and other innocent people along the cigarette distribution chain.<sup>[3]</sup>

### **Common Arguments for Cigarette Tax Increases Do Not Pan Out**

What is the rationale for raising taxes on cigarettes? The following are five common arguments made by advocates of cigarette tax hikes, yet none appeal to principles of sound tax policy.

*Argument 1: Higher cigarette taxes deter youth from smoking.*

It is true that the law of supply and demand dictates that a higher price means a lower quantity is demanded. Groups like Campaign for Tobacco Free Kids lobby for cigarette tax hikes, arguing that they are necessary to prevent kids from smoking. But children are actually the least price-sensitive smokers. They are likely to buy the most expensive name brands, which they can afford because they only smoke a few cigarettes a day.[\[4\]](#)

If we are concerned about youth smoking, why not just raise the punishment for youth smoking? We could seize drivers' licenses or send them to reform school. Making adults pay higher taxes is an ineffective way to reduce youth smoking. Of course, some anti-smoking activists use the children argument merely as a cover for pushing restrictions on tobacco use for everyone, adults included.

*Argument 2: Smoking is harmful and cigarette taxes reduce those harms.*

For a half-century, health experts have emphasized the harms associated with smoking. To those who believe that any smoking by anyone is harmful and has no benefits, there is an obvious policy solution: prohibition. Rather than prohibition, however, anti-smoking groups seek ever higher taxes on cigarettes, year after year.

*Argument 3: Smokers act irrationally in believing smoking has benefits, and the tax corrects for that mistake.*

Some argue that comparing costs and benefits is problematic because smokers are irrational when they smoke, with many regretting it later in life. However, people's regrets are often exaggerated or mistaken and are not a solid basis for public policy. For example, people often regret things they have said, and yet we would not want to restrict speech to prevent other people from making the same mistake. It's well established that people usually overestimate by a substantial margin the number of years of life that smoking costs.[\[5\]](#)

*Argument 4: Raising cigarette taxes is proper tax policy because smokers impose costs on government and society.*

It is true that smokers impose costs on society; economists call these costs negative externalities. Non-smokers have to smell cigarettes on a public street, and cigarette butts contribute to litter. And there are costs to government, too, especially for government-run health care programs. But it is also true that because the government's spending on the elderly is so huge, smoking—ironically and tragically—saves the public a great deal of money. By dying earlier, smokers collect much less in Social Security and Medicare benefits than non-smokers.

Many anti-smoking advocates bring up the "economic" costs of smoking, defined as lost wages and economic activity. However, many of these costs are borne by smokers themselves, not by the rest of society. If that is the case, the benefits to those individual smokers (in their own minds, at least) exceed the costs. Everything has a cost, but not everything has a significant cost imposed on third parties.

To dramatize the cost of smoking to society, campaigners often cite the number of smoking-related deaths as if those deaths were comparable to the number of deaths by car accident or murder. But a smoking-related death is cited in academic literature as taking somewhere between three and eight years from a lifetime smoker.<sup>[6]</sup> If that same person had died as a teenager at age 16 in a car accident, that's a loss of 59 years of life. These are not comparable tragedies.

*Argument 5: We need more revenue.*

It is often said that cigarette taxes should be increased because government needs revenue. Such an argument is possibly the worst used by advocates of higher cigarette taxation. Why not tax coffee or spinach or impose a tax based upon the number of blades of grass in a taxpayer's yard? Just because the government needs revenue to fund some general spending program that has broad benefits doesn't mean that an arbitrarily selected group of people should pay the tax.

The cigarette tax rate should never be increased merely because government budgets are in deficit or because officials are seeking more revenues for a new spending program. It is possible for a cigarette tax rate to be too low because of the costs that smokers impose on others, but that is not a good argument for using them to raise general revenue. Popular, expensive, broadly available public programs should be paid for with broad-based taxes on income or consumption.

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[1] See Gerald Prante, "Options for Funding SCHIP Expansion: Cigarette Taxes Least Defensible Alternative," *Tax Foundation Fiscal Fact*, No. 92 (Jul. 13, 2007), at <http://www.taxfoundation.org/news/show/22476.html>.

[2] See Patrick Fleenor, "California Schemin': Cigarette Tax Evasion and Crime in the Golden State," *Tax Foundation Special Report*, No. 145 (Oct. 5, 2006), at <http://www.taxfoundation.org/publications/show/1911.html>.

[3] See Patrick Fleenor, "SCHIP, Cigarette Taxes, and Crime," *Tax Foundation Tax Policy Blog* (Jul. 16, 2007), at <http://www.taxfoundation.org/blog/show/22484.html>.

[4] See Jane Gravelle, "Burning Issues in the Tobacco Settlement: An Economic Perspective," *Tax Foundation Background Paper*, No. 25 (Jul. 1998), at <http://www.taxfoundation.org/research/show/598.html> ("It is difficult to control for all factors that affect underage smoking, but recent studies raise some doubts about the responsiveness of teenage smokers to price changes. While teenagers have less money and therefore might be expected to be more price responsive, they may not smoke as often as adult smokers. According to the University of Michigan's Monitoring the Future Survey, while 36.5 percent of high school seniors smoked at least one cigarette in the past month, only 24.6 percent smoked at least one cigarette daily and only 14.3 percent smoked more than ten cigarettes

daily. Moreover, the objectives (e.g. status) may be different and maintained by smoking less. Teenagers, in fact, tend to buy higher priced premium brands.")

[5] See W. Kip Viscusi and Jahn K Hakes, "Risk Beliefs and Smoking Behavior," *Economic Inquiry*, Vol. 46, No. 1, January 2008, p. 48.

[6] *Ibid.*, pp. 48-49.

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