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# WHY INCREASE THE TOBACCO TAX?

## IT'S AS EASY AS 1, 2, 3

1) Kids: Tobacco tax increases are one of the most effective ways to reduce smoking and other tobacco use, especially among kids. Every 10 percent increase in cigarette prices reduces youth smoking by about seven percent and total cigarette consumption by about four percent.

2) Health Care: Every state that has significantly increased its cigarette tax has enjoyed substantial increases in revenue, even while reducing smoking. Higher tobacco taxes also save money by reducing tobacco-related health care costs, including Medicaid expenditures. States can realize even greater health benefits and cost savings by allocating some of the revenue to programs that prevent smoking and help smokers quit.

3) State Budget: The CDC and other studies estimate that annual health care costs in Georgia directly caused by smoking amount to \$3.18 Billion. The portion of that covered by the state Medicaid program is \$537 million per year, or about \$542 per household per year. A tobacco tax would offset these costs in two ways: by bringing in additional revenue and by reducing smoking. A tobacco tax increase of \$1.23 would generate an estimated \$425 million per year in new revenue for Georgia, even after accounting for consumption declines that result from the increased price. Notably, Georgia's current cigarette tax of 37 cents generates nearly \$200 million per year in revenue for Georgia, or about \$5 million per penny of tax. At that rate, a \$1.23 increase would bring \$615 million.

## WHY RAISE IT BY \$1.23?

Georgia's current cigarette tax is only 37 cents per pack, which ranks as the 48<sup>th</sup> lowest of the 50 states. Increasing the cigarette tax by \$1.23 would bring Georgia just above the national average of \$1.54 per pack.

## FAQ ON THE TOBACCO TAX

### *Is the tobacco tax a reliable source of revenue for Georgia?*

**Yes:** Every single state that has raised its cigarette tax rate has subsequently received more tax revenue than they would have received without a rate increase, despite the fact that cigarette tax increases reduce state smoking levels and despite any related increases in cigarette smuggling, tax evasion, or cross-border sales. That is, the increased tax per pack brings in more new state revenue than is lost from the related reductions in the number of packs sold and taxed in the state. Moreover, the substantially higher revenue levels enjoyed by those states that significantly increase their cigarette tax rates persist over time (while the cost savings from the related smoking declines grow rapidly).

### *Is this a regressive tax that could disproportionately impact the poor?*

**No:** Actually, it is just the opposite. It is the harms from smoking that are regressive. Lower-income communities already suffer disproportionately from smoking-caused disease, disability, death, and costs. By prompting more lower-income smokers to quit and cut back, raising state cigarette tax rates will reduce those regressive harms and costs, directly helping lower-income smokers and also reducing smoking-caused costs and harms to their families.

### *Is the tobacco tax a stable source of funds for the State?*

**Yes:** Year to year, state tobacco tax revenues are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can vary considerably each year because of nationwide recessions or state economic slowdowns. In sharp contrast, large swings in tobacco tax revenue from one year to the next are quite rare because of the addictive nature of cigarettes. Moreover, the smoking-reduction revenue declines will occur at a gradual, predictable rate (as related savings grow), making related state budgeting quite easy.

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