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Several American cities have raised cigarette taxes as a public health measure and to generate local revenue for cash-strapped programs. These taxes are not as regressive as once assumed and can be an important part of a local funding package.

Chicago levies a \$1.18 tax per pack. New York has a \$1.50 per pack tax. And Washington, DC, imposes a \$2.50 per pack tax. Local governments have raised roughly \$500 million in annual revenue for smoking cessation efforts and other community needs.¹ One concern raised by cigarette retailers is the potential for “border bleed,” or customers traveling outside the jurisdiction to buy cigarettes. While sales can slow as a result of the tax, one study found that this might be more attributable to reduced consumption than tax avoidance.²

Philadelphia has requested authorization from the General Assembly to add a \$2 per pack tax on cigarettes sold in the city to raise an estimated \$70-\$90 million³ for its public schools. The cigarette tax would provide a local, recurring source of revenue for the school district.

A vote on the legislation on August 4 was postponed indefinitely. Without this locally generated funding school district officials have announced they may need to delay the opening of schools, lay off 1,500 personnel and increase class sizes to 40 students in some high schools. Since 2011, the district has cut nearly 3,900 positions – including classroom aides, school nurses, counselors and librarians – and reduced enrichment programs.⁴



Higher Cigarette Taxes Curb Tobacco Use

Cigarette use is dangerous, and increasing taxes on cigarettes has proven to be an effective way to reduce their use, particularly among youth. The Centers for Disease Control and Prevention found that smoking causes 480,000 deaths each year.⁵ The Surgeon General indicated that there is increased risk for coronary heart disease and lung cancer resulting from smoking.⁶ The Congressional Budget Office (CBO) estimated that a federal cigarette tax increase of \$1 per pack could result in 8% fewer smokers aged 18-24 by 2021, and 2.6 million fewer adult smokers.⁷

Benefits Matched to Costs

While cigarette taxes are generally regressive, as lower-income workers bear most of the cost of the tax, the Center on Budget and Policy Priorities has identified a

number of factors that make these taxes less regressive than previously believed:

- **Higher prices on cigarette taxes have important health benefits.** Lower-income individuals are more responsive to price increases, and therefore more likely to smoke less or quit sooner.
- **Cigarette taxes make smokers “think twice” about their decision to pay more for cigarettes,** and prompt them to consider the long-term impacts of such expenses.
- **Revenue collected from cigarette taxes can provide important public benefits.** The cigarette tax increase for Philadelphia would supply critical revenue to support the city’s public schools. Low-income families would realize much of the benefit from the increased funding.

A cigarette tax increase can be part of a plan to provide needed funds to educate Philadelphia students and avert a short-term funding deficit. Over the long-term, new permanent state funding is necessary to reduce reliance by Philadelphia and other Pennsylvania school districts on local taxes.

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families. Learn more at www.pennbpc.org.

¹ Ann Boonn, “Top Combined State-Local Cigarette Tax Rates,” Campaign for Tobacco-Free Kids, June 20, 2010, <http://www.tobaccofreekids.org/research/factsheets/pdf/0304.pdf>.

² Howard Chernick and David Merriman, *Using Littered Pack Data To Estimate Cigarette Tax Avoidance in NYC*, Roosevelt House Public Policy Institute at Hunter College, City University of New York, February 27, 2013, http://www.roosevelthouse.hunter.cuny.edu/devdev/wp-content/uploads/2013/03/NYC-cig-tax-evasion_ms2011058_final_2_27_2013.pdf.

³ Tim Rodrigo and Ritchie LaFaver, *House Committee on Appropriations (R) Fiscal Note, House Bill 1177, Printers Number 3932*, July 8, 2014, <http://www.legis.state.pa.us/WU01/LI/BI/FN/2013/0/HB1177P3932.pdf>.

⁴ Sharon Ward, *A Strong State Commitment to Public Education, A Must Have for Pennsylvania’s Children*, Pennsylvania Budget and Policy Center, April 2014, <http://pennbpc.org/sites/pennbpc.org/files/20140429schoolreport.pdf>.

⁵ Centers for Disease Control and Prevention (CDC), “Health Effects of Cigarette Smoking,” February 6, 2014, http://www.cdc.gov/tobacco/data_statistics/fact_sheets/health_effects/effects_cig_smoking/index.htm.

⁶ U.S. Surgeon General, *Preventing Tobacco Use Among Youth and Young Adults*, U.S. Department of Health and Human Services, 2012, <http://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/full-report.pdf>.

⁷ Chuck Marr and Chye-Ching Huang, “Higher Tobacco Taxes Can Improve Health and Raise Revenue,” Center on Budget and Policy Priorities, March 19, 2014, http://www.cbpp.org/cms/?fa=view&id=3978#_ftn9.