

The Case for Increasing North Carolina's Cigarette Excise Tax

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North Carolina is the leading tobacco growing and tobacco manufacturing state in the country. Perhaps related to that, we have the nation's sixth highest prevalence of smoking.

In order for the North Carolina legislature to vote to establish (as it did in 1969) or to increase (as it did in 1991) a cigarette excise tax, there must be a major budget shortfall. That condition exists today, and health advocates must see in our current financial crisis a rare opportunity to improve the health of our citizens by raising tobacco taxes. As this article is being prepared, many legislators are introducing bills toward that end in both houses of the General Assembly.

Currently our tax is a nickel a pack. Only Virginia (2.5 cents a pack) and Kentucky (3 cents a pack) have cigarette taxes that are lower. These three states plus South Carolina (7 cents), Georgia (12 cents), and Tennessee (13 cents) are major tobacco producers; together their taxes average 7 cents a pack, while the national average is over 50 cents. Excluding the major tobacco-producing states, the national average is 58 cents. Five states increased their tax in 2001, 11 have done so in 2002, and more than 20 others are considering increases, in a reflection of our national economic slowdown. Wherever taxes are increased, revenues are increased and consumption has decreased—a "win-win" situation for state fiscal affairs as well as for public health. For adults, a 10% increase in price (which would be accomplished by a 30-cent increase in the tax) would decrease smoking by 3%. For teenagers, with less spendable income, such an increase would decrease consumption by 7%. According to the Campaign for Tobacco-Free Kids, a 50-cent increase per pack in North Carolina would produce an impressive range of benefits, as shown in the accompanying Table.

As mentioned repeatedly in Ms. Malek's fine article,

major health groups agree that a price increase is the single most effective strategy in reducing cigarette consumption and the morbidity and mortality linked to tobacco. While the benefits in reduction of prevalence of lung cancer are stretched out over decades after cessation, there is a rapid reduction in deaths due to heart disease and, among mothers who stopped smoking while pregnant, in adverse outcomes at birth.

The NC Health and Wellness Trust Commission recently allocated \$6.2 million per year of tobacco settlement money to be spent on a comprehensive tobacco control program over the next three years. The funds will support a media campaign, a telephone quit line, and many community- and school-based programs. If North Carolina simultaneously adopts a higher excise tax, it is logical to assume that the effect on tobacco consumption will be synergistic with the activities funded by the tobacco settlement monies.

Surveys have indicated that North Carolina voters favor a tax hike. Legislators surely sense opposition from tobacco interests. Yet tobacco manufacturing, which represented 11% of North Carolina's total economy in 1963, had slipped to 3.8% percent by 2000. Tobacco farming in 2000 represented 11.5% of all state agriculture. While tobacco has had a rich tradition in our state, its economic importance is eroding as more attention is directed to the health consequences of its use.

For the tobacco farmer, the effect of a \$.50 tax increase is a minuscule 0.13% for burley and 0.10% for flue-cured tobacco. To arrive at these numbers the Campaign for Tobacco Free Kids used the following steps:

(1) Forty percent of flue-cured tobacco and 26.6% of burley grown in America is sold to foreign buyers for overseas manufacture and consumption.

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Projected fiscal and health impact of a 50-cent increase in North Carolina's cigarette tax

New state tax revenues each year	\$373.8 million
New state sales tax revenues	\$8.6 million/year*
Fewer packs of cigarettes smoked/year	53.2 million
Increase in number of kids alive today who would not become smokers	70,500
Number of current adult smokers who would quit	49,100
Number of smoking-affected births avoided in the next five years	9,350
Number of current adult smokers saved from smoking-related deaths	10,800
Number of kids alive today saved from premature smoking-related deaths	22,500
Five-year healthcare savings from fewer smoking-affected pregnancies and births	\$10.7 million
Five-year healthcare savings from fewer smoking-caused heart attacks and strokes	\$16.9 million
Total lifetime healthcare savings due to cessation and prevention induced by this tax	\$1.25 billion

*Sales tax is levied on the total price, including other taxes, of a commodity.

(2) Only 70% of cigarettes manufactured in the US are smoked domestically.

(3) Hence, only 52% of the burley tobacco and 42% of the flue-cured tobacco grown domestically ends up being smoked in the USA.

(4) Cigarette sales in North Carolina represent 3.7% of all sales in the nation.

(5) In-state smoking consumes 1.9% of burley and 1.55% of flue cured tobacco grown in North Carolina.

(6) A \$.50/pack tax increase is projected to reduce consumption by 6.6%.

(7) The tax would eliminate the market for 0.13% of the burley and 0.1% of the flue cured tobacco grown by Tar Heel farmers.

Calculating the reduction in manufacturing demand for cigarettes from a \$.50 increase in North Carolina's excise tax requires multiplying 70% x 3.7% x 6.6% (steps number 2, 4 and 6 of the above sequence) which ends up a paltry 0.13%. Industry has more than compensated for its expenses due to the National Tobacco Settlement, by raising prices to a level that, despite reduced consumption, produced greater profits after the 1998 settlement than before. Industry spokesmen complain that the tobacco tax hits low-income workers who are more likely to smoke and hence is regressive; however, that never inhibited tobacco companies from inflating their prices and their profits derived from the sale of tobacco to this same segment of the population. Smokers with family incomes at or below the national median (\$33,106 in 1997) are four times as likely to quit because of cigarette tax increases as those with higher incomes. For those who quit, the tax increase is a money-saving and health-improving event, and not regressive.

Tobacco lobbyists may concentrate their efforts to keep our NC excise tax low (and those of the other tobacco-

producing states in our region) in the belief that our low taxes may place a dampening effect on other states as they contemplate higher rates. That hardly seems a deterrent. Witness the following: New York (\$1.50/pack), Washington (\$1.43/pack), Rhode Island (\$1.32/pack), Hawaii (\$1.20/pack), and Connecticut (\$1.11/pack). What this disparity promotes is a potential for smuggling cigarettes. A group of smugglers has recently been convicted in Charlotte for obtaining low-tax cigarettes in North Carolina and selling them in Michigan, where the tax is \$.75/pack. This activity is facilitated by North Carolina's lack of a tax stamp. All but two states have a tax stamp on each package of cigarettes. North Carolina had such a stamp until the legislature repealed it in 1994. Reinstating the tax stamp might stymie smugglers. Raising the North Carolina tax might keep smugglers from perpetrating their criminal activity here.

Ten years ago the North Carolina Medical Society passed a resolution in favor of increasing the tax to \$1.00, provided that much of the revenue be spent to help farmers hurt by the decreased demand for tobacco. Since then, North Carolina's tobacco farmers have been receiving ample compensation for the drop in demand: \$1.5 billion over 25 years from Phase I and \$1.9 billion over 12 years from Phase II of the national tobacco settlement. Recent polls show that the state's voters favor a substantial increase in the tax and that they want the revenue earmarked for tobacco use prevention and control.

As a matter of effective public health policy and to provide a dependable source of in-state revenue, raising our ridiculously low cigarette tax is both logical and popular. Legislators pay attention to the wishes of their constituents. Concerned citizens should remind their representatives of how they feel about these issues.