



KENTUCKY CIGARETTE EXCISE TAX INCREASES ESTIMATED NEW REVENUES, COST SAVINGS, AND OTHER BENEFITS & EFFECTS

Current State Cigarette Tax Rate: \$0.30 per pack

Nationwide State Average: \$1.19 per pack (NY at \$2.75 is highest)

Smoking-Caused Costs in State Per Pack Sold: \$5.07

Kentucky Rank Among All States: 47th (1 is highest)

Actual State cigarette tax revenue for FY 07-08: \$180.9 million

Reduction to State cigarette tax revenue from upcoming smoking & pack sale declines: -\$27 million

[caused by the new federal cigarette tax increase and continuing background State smoking declines]

| Tax Increase Per Pack | Additional New State Cig Tax Revenue (Millions/Yr) | Youth Smoker Decline | Fewer Future Youth Smokers | Fewer Adult Smokers | Total Future Smoking Deaths Avoided | 5-Year Smoking Harmed Births Avoided | 5-Year Heart & Stroke Savings (Millions) | 5-Year Smoking-Births Savings (Millions) | Overall Long-Term Health Savings (Millions) |
|-----------------------|--|----------------------|----------------------------|---------------------|-------------------------------------|--------------------------------------|--|--|---|
| \$0.30 | \$124 | 5.8% | 16,400 | 11,700 | 8,300 | 3,700 | \$8.2 | \$6.3 | \$398.2 |

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- The above shows the amount of new revenue the state would get in the year following the state cigarette tax increase (or in the first full fiscal year after the increase) beyond the amount of revenue the state would get without any increase.
- These projections incorporate the impact of both background smoking declines and the unprecedented 61.66-cent federal cigarette tax rate increase (effective March 31, 2009) on state smoking levels, pack sales, and pack prices. According to tobacco industry analysts, ongoing smoking declines are expected to average approximately four percent per year, nationwide, with much of that decline centered in the states that increase their cigarette tax rates. Industry analysts and the Congress's Joint Committee on Taxation expect the new federal cigarette tax increases to reduce cigarette sales, nationwide, in the high single digits. Smoking and pack sale declines in any particular state, however, will vary depending on its existing smoking rates, pack prices, and other tobacco prevention activities.
- Tax increases of less than roughly 20 cents per pack or 10% of the average state pack price do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- To maximize revenues, public health benefits and cost savings (and promote tax equity), Kentucky should make sure its tax rates on other tobacco products (OTPs) equal the new cigarette tax rate. Equal tax rates also ensure that the state does not lose tax revenue each time a smoker switches to cigars or smokeless. To parallel the new cigarette tax rate of \$1.00 per pack, the state's new OTP tax rate should be at least 40% of the wholesale price.
- These projections assume that Kentucky will follow standard practice and apply the cigarette tax increase to all previously tax-stamped or otherwise tax-paid cigarettes held in inventory by wholesalers or retailers on the effective date of the increase. Failing to tax such cigarettes held in inventory would open the door to massive pre-increase stockpiling by retailers and wholesalers to evade the increase, drastically delaying and reducing the amount of new state revenues and related public health benefits.

Projections are based on research findings that each 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4% (but adjusted down to account for tax evasion effects). Revenues still increase because the higher tax rate per pack will bring in more new revenue than is lost from the tax-related drop in total pack sales. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states. Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over the lifetimes of persons who stop smoking or never start because of the rate increase. All cost and savings amounts are in 2004 dollars.

For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>

More information available at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>