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*A Policy Research Partnership
to Reduce Youth Substance Use*



Supported by
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Tobacco Taxation

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EXHIBIT E Committee on Taxation

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Tobacco Taxes and Tobacco Use

- Higher taxes induce quitting, prevent relapse, reduce consumption and prevent starting.
- Estimates indicate that 10% rise in price reduces overall smoking by about 4%
- About half of impact of price increases is on smoking prevalence
- Recent estimates for young adult smokers indicate that 10% price rise would raise probability of quitting smoking by over 3%
- Because of addictive nature of smoking, long term effects of tax and price increases are larger

Source: Chaloupka et al., 2000

Lower SES populations are more price responsive

- Growing international evidence shows that cigarette smoking is most price responsive in lowest income countries
- Evidence from U.S. and U.K. shows that cigarette price increases have greatest impact on smoking among lowest income and least educated populations
- In U.S., for example, estimates indicate that smoking in households below median income level about 70% more responsive to price than those above median income level

Implies tax increases may be progressive

Sources: Farrelly, et al., 1999; Chaloupka et al., 2000

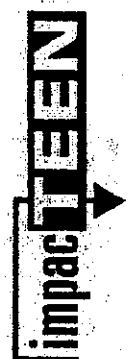
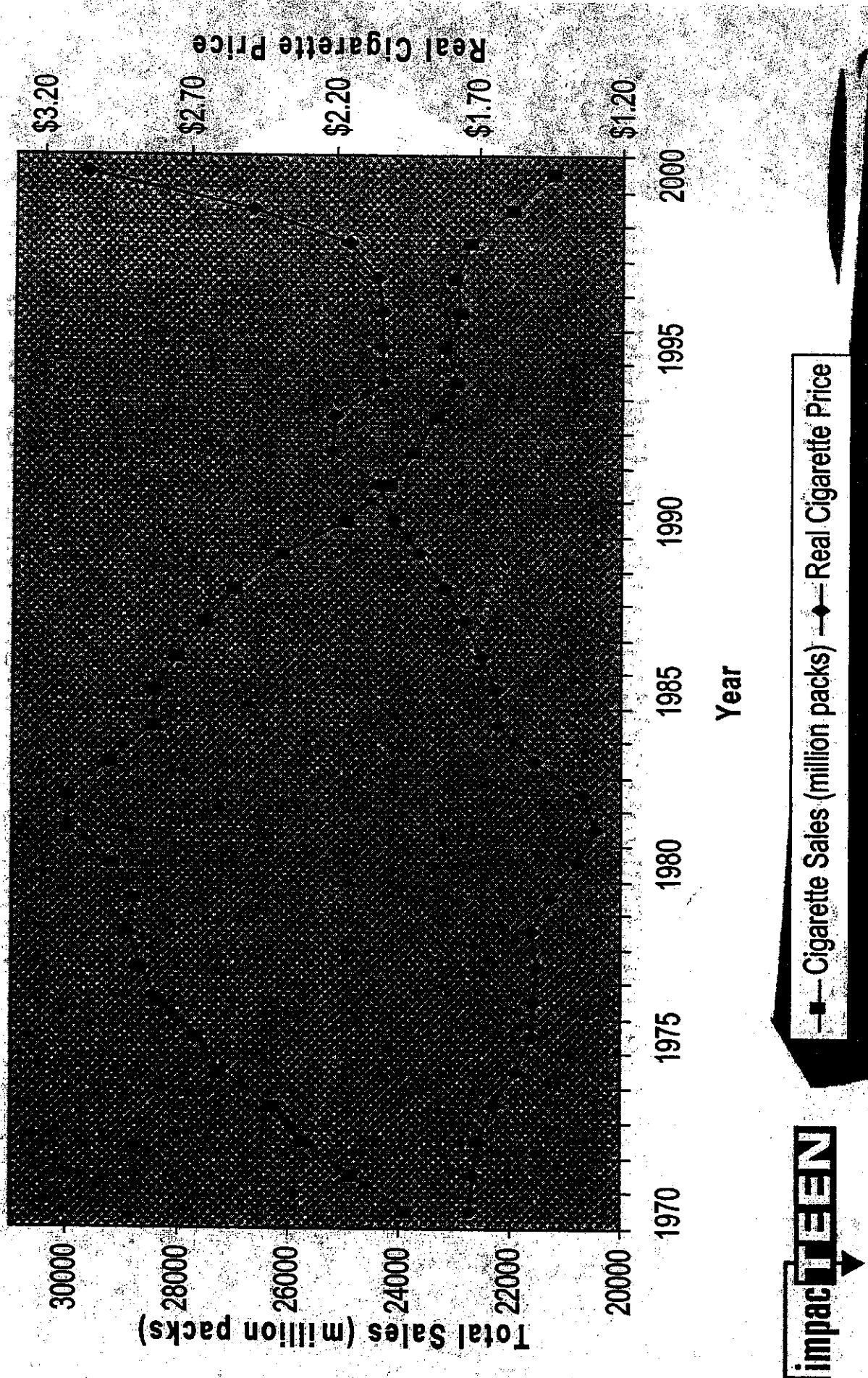
Young people more price responsive

- **Economic theory suggests several reasons, including lower income, peer influences, shorter smoking histories, and greater discounting of future**
- **Evidence from U.S. suggests that youth are up to three times more sensitive to price than adults while young adults are about twice as price sensitive**
- **Recent studies conclude that greatest impact of price is in preventing transitions from experimental smoking to more regular smoking**

Because kids are highly price sensitive and 90 percent of smokers start as teens, higher taxes can sharply reduce smoking in the long run

Sources: Chaloupka et al., 2000; Emery et al. 2001; Tauras et al. 2001

Total Cigarette Sales and Cigarette Prices, 1970-2000



CIGARETTE PRICES AND HEALTH

According to a study conducted by Pacific Institute for Research and Evaluation and the Roswell Park Cancer Institute:

- An increase of \$1 in the current cigarette excise tax, indexed for inflation, would result in 2.3 million fewer smoking-attributable deaths over the projected 40-year period the study measures.
- The greatest benefit from the tax hike would be to youth smokers who are, as a group, the most sensitive to price fluctuations, projecting that a \$1 cigarette tax hike would immediately decrease youth smoking by 30 percent while reducing overall smoking rates by 11 percent.



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