



## BENEFITS FROM A \$1.00 CIGARETTE TAX INCREASE IN NORTH CAROLINA

**Current State Cigarette Tax: 35 Cents Per Pack (45th among all states)**  
**Smoking-caused costs in North Carolina: \$7.17 per pack**

**Annual healthcare expenditures in North Carolina directly caused by tobacco use: \$2.46 billion**  
**Smoking-caused state Medicaid program spending each year: \$769.0 million**

### Projected Benefits from Increasing the State Cigarette Tax Rate by \$1.00 Per Pack

<b>Additional state cigarette tax revenues in first year</b>	<b>\$329 million</b>
<b>Percent decrease in youth smoking</b>	<b>17.0%</b>
<b>Kids in North Carolina kept from becoming addicted adult smokers</b>	<b>89,500</b>
<b>Current adult smokers in the state who would quit</b>	<b>59,500</b>
<b>Smoking-affected births avoided over next five years</b>	<b>13,300</b>
<b>North Carolina residents saved from premature smoking-caused death</b>	<b>44,400</b>
<b>5-year health savings from fewer smoking-affected pregnancies &amp; births</b>	<b>\$22.6 million</b>
<b>5-year health savings from fewer smoking-caused heart attacks &amp; strokes</b>	<b>\$34.0 million</b>
<b>Long-term health savings in state from adult &amp; youth smoking declines</b>	<b>\$2.1 billion</b>

- The above projections show the amount of new revenue the state would get in the year following the state cigarette tax increase compared to the amount of revenue the state would get without any change to its tax rate.
- Projections incorporate the impact of the 61.66-cent federal cigarette tax rate increase (effective on March 31, 2009) on state smoking levels, pack sales, and pack prices.
- 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), North Carolina 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 \$1.35 per pack, the state's new OTP tax rate should be at least 55% of the wholesale price.
- These projections assume that North Carolina 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 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>**

*Campaign for Tobacco-Free Kids 2.03.09 / Ann Boonn & Eric Lindblom, February 4, 2009*

Projections will be updated and improved as updated underlying data becomes available and when new data and research findings prompt refinements to the projection models and formulas.