

Study clears the air on cigarette tax policy

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(Medical Xpress)—Two pretty good reasons to hike cigarette taxes – persuading some smokers to quit, and raising revenue from those who won't – are equally doable, a Cornell-Princeton economics study has determined.

The study analyzed responses to two kinds of taxes on cigarettes – excise taxes that are included in the posted price of a pack, and sales taxes that are added at the cash register – among high-income versus low-income smokers in light of fiscal-policy goals, explains Tatiana Homonoff, assistant professor of policy analysis and management in Cornell's College of Human Ecology.

"Cigarette taxes are a common source of local revenue, but they're notorious for being regressive; they constitute a proportionately greater burden for low-income taxpayers. We may have found a way to generate the same amount of tax revenue while making the tax less regressive," says Homonoff, co-author (with Princeton's Jacob Goldin) of a paper in the February 2013 *American Economic Journal: Economic Policy*, "Smoke Gets in Your Eyes: Cigarette Tax Salience and Regressivity."

"Tax salience" refers to how much attention consumers pay to the taxes when they decide whether to buy a pack of smokes. Previous research found consumers are more attentive to taxes included in the posted price of cigarettes (see sidebar), whereas taxes added to the posted price at the cash register are generally less noticeable.

The economists wondered: Is this effect the same for all income groups?

If poor people balk at higher taxes and decide to quit smoking, while the better-off grumble and keep smoking, that's a win-win for policymakers looking to raise revenue without burdening the poor.

Data about how consumers respond to changes in [cigarette taxes](#) came from the Behavioral Risk Factor Surveillance System at the Centers for Disease Control and Prevention.

When all the numbers were crunched and the air cleared, the economists came to this conclusion: "Low-income consumers reduce cigarette demand in response to both excise and sales taxes on cigarettes, whereas higher-income consumers only reduce cigarette demand in response to excise taxes."

So here's their near-perfect solution: Raise sales taxes at the point of purchase – getting the attention of low-income smokers and encouraging them to quit while continuing to raise revenue from the high-income smokers.

Say the paper's authors: "We showed that levying a greater proportion of a commodity tax at the register shifts the tax's burden away from attentive consumers. When low-income consumers pay more attention to register taxes than high-income consumers do, designing a tax in this way can lessen its regressivity."

Puffing in the Big and Little Apples

New York state imposes an excise tax on cigarettes at the rate of \$4.35 per pack of 20 cigarettes, according to the N.Y.S. Department of Taxation and Finance. New York City, home to Weill Cornell Medical College and Cornell Tech, imposes a local excise tax at the rate of \$1.50 per pack, bringing the combined excise tax to \$5.85. Cornellians puffing in the Big Apple – if there are any – aren't surprised to see a posted

price, including excise taxes, of \$10.80 a pack.

And that's before the register rings up NYC's "sales tax," an ad valorem levy based on the retail price of cigarettes before excise taxes are added. That 8.875 percent tax is a combination of the city sales tax (4.5 percent); New York state sales and use tax (4 percent); and the Metropolitan Commuter Transportation District Surcharge (0.375 percent).

Back in the so-called Little Apple, home to Cornell's Ithaca campus, sales tax is a not-quite-so-shocking 8 percent, a combination of state and county [sales taxes](#) of 4 percent apiece. And there's no local excise tax on tobacco products in Tompkins County, N.Y., so a pack of Newports can be had for \$9.11 (plus sales tax) at off-campus convenience stores. (The on-campus Cornell Store does not sell cigarettes.)

The "Smoke Gets in Your Eyes" report recommends a revenue-neutral shift from posted taxes to taxes imposed at the [cash register](#) to reduce the tax burden for the poor while continuing to raise revenue for government programs.

More information: Goldin, Jacob, and Tatiana Homonoff. 2013. "Smoke Gets in Your Eyes: Cigarette Tax Saliency and Regressivity." *American Economic Journal: Economic Policy*, 5(1): 302-36. [DOI: 10.1257/pol.5.1.302](#)

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