

A tax on menthol cigarettes would work better than statewide bans, study finds

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Menthol-flavored cigarettes account for more than one-third of

cigarettes sold in the United States, and experts believe they are more dangerous than traditional cigarettes.

More than 150 cities and counties have prohibited the sale of menthols, and Massachusetts and California both have statewide bans. The Food and Drug Administration proposed a [federal ban](#) in 2022 but may never institute it. In the absence of a national ban, new research from the University of Washington finds that a menthol tax is a preferable policy to scattered statewide bans.

The study, forthcoming in *Marketing Science*, evaluates the ban on menthol cigarettes in the state of Massachusetts. While researchers found that some demand shifted from menthol to non-[menthol cigarettes](#), menthol sales in bordering states also increased significantly. This suggests consumers engage in cross-state shopping for menthols, which reduces tax revenue for Massachusetts and decreases positive health benefits. A statewide menthol tax would be preferable, study results suggest, because it would lead to a drop in smoking in the state while also generating additional tax revenue.

Menthol adds a cooling, minty sensation to cigarettes that mitigates the harshness and leads to increased initiation among new smokers, according to the FDA. Combined with nicotine, effects in the brain are also associated with signs of greater addiction.

"Many menthol smokers are still smoking them after the ban," said Simha Mummalaneni, co-author and assistant professor of marketing in the UW Foster School of Business. "They're just traveling across the border into New Hampshire or Connecticut and buying the cigarettes there.

"From the perspective of the people who wrote this policy in Massachusetts, this is bad because it means the public health benefits are

not as big. We've not solved the problem. We've diminished it, but not solved it. This pattern is also bad for the policymakers because they have lost a tremendous amount of tax revenue."

The study focused on stores in three areas: the state of Massachusetts, a 30-mile ring around the state border and a control area outside the New York and New England region. Menthols accounted for about 27% of all cigarette sales in these areas, and researchers calculated the total weekly cigarette sales in Massachusetts and the border area to determine the overall impact of the ban from June to December 2020.

While stores in Massachusetts lost sales, stores within 30 miles of the border received additional customers. Out-of-state cigarette sales increased by 88.72%, with most sales going to New Hampshire. As a result, New Hampshire's cigarette tax revenue sharply increased during the observation window.

Non-menthol cigarette sales in Massachusetts increased after the ban—implying that some consumers switched from menthols—but not enough to cancel out the decline in menthol sales. Overall cigarette sales in Massachusetts also declined significantly, while non-menthol and menthol cigarette sales both increased in the border area.

Researchers found that state-specific bans decrease menthol consumption by 46% and overall cigarette consumption by 4.8%, but also decrease tax revenues by about 21%. Based on these calculations and a model of consumer shopping included in the new study, a \$6 per-pack tax would increase tax revenue by 14% while also decreasing menthol and overall cigarette consumption by 28% and 2.7%, respectively. When the tax increases beyond \$6, revenue begins to fall because consumers are strongly incentivized to purchase cigarettes across the border.

While researchers didn't study the effects of California's menthol ban, they said cross-border shopping likely wouldn't be as severe due to the state's larger size. That doesn't eliminate the issues, however.

"Despite its larger size, there is still reason to be worried for California," said Ali Goli, co-author and assistant professor of marketing in the UW Foster School of Business. "If menthols are being smuggled through organized crime, you haven't solved the problem. You're still sending tax revenue elsewhere. We haven't seen these scattered statewide bans really working.

"When you consider a tax in California, there's no reason to believe it would fail. You can still implement a tax to generate more revenue and then wait until maybe there's a nationwide ban."

In Massachusetts, a menthol ban would reduce cigarette tax revenue by \$108 million, while a [menthol](#) tax would increase revenue by \$72 million. The difference between the two options is \$180 million—lost [tax revenue](#) that could be used to fund tobacco control programs, education efforts, outreach and more.

"States have tobacco control programs," Mummalaneni said. "They are like a lot of public health initiatives; they are underfunded. They have people who are really working hard for them and care about the initiatives. They would love to do so much more, but they just don't have the funds to do so."

Pradeep K. Chintagunta of the University of Chicago was the study's final co-author.

More information: Ali Goli et al, Making a Smooth Exit? Menthol Bans and Cigarette Sales in Massachusetts, *Marketing Science* (2023). [DOI: 10.1287/mksc.2022.0361](https://doi.org/10.1287/mksc.2022.0361)

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