



December 2008

Nathan Jones, PhD¹

Randall Glysch, MS²

Kyle Pfister, BS²

Karen Palmersheim, PhD¹

University of Wisconsin
Paul P. Carbone
Comprehensive Cancer Center
Tobacco Surveillance and
Evaluation Program¹

www.medsch.wisc.edu/mep

Division of Public Health,
Wisconsin Department of
Health Services²

Support for this report was provided by the Wisconsin Tobacco Prevention and Control Program, Bureau of Community Health Promotion, Division of Public Health, Wisconsin Department of Health Services.

Changes in Cigarette Sales and Collected Tax Revenue Following Implementation of the 2008 Tobacco Tax Increase

Background

Tobacco is the leading preventable cause of death in the Wisconsin. Because of the enormous social, health, and economic costs associated with smoking, reduction of tobacco use is a core objective of the state health plan, *Healthiest Wisconsin 2010*. Although not a direct measure of tobacco consumption, cigarette sales are a good indicator of trends in tobacco use. Annual cigarette sales and collected tax revenue in Wisconsin were stable for the period of 2003-2007. On January 1, 2008, the excise tax on a pack of cigarettes increased from \$.77 to \$1.77, the first time the tax had been increased since October 1, 2001. In 2007, 394 million packs of cigarettes were sold in Wisconsin, resulting in \$299 million in collected revenue. According to the US Surgeon General, “substantial increases in the excise taxes on cigarettes would have considerable impact on the prevalence of smoking and, in the long-term, reduce the adverse health effects caused by tobacco”.¹ Data collected by the Wisconsin Department of Revenue (DOR) in 2008 suggest that sales of tobacco have been lower, and revenue generated from the sale of tobacco has been sharply higher, since the introduction of the new tax.

Methods

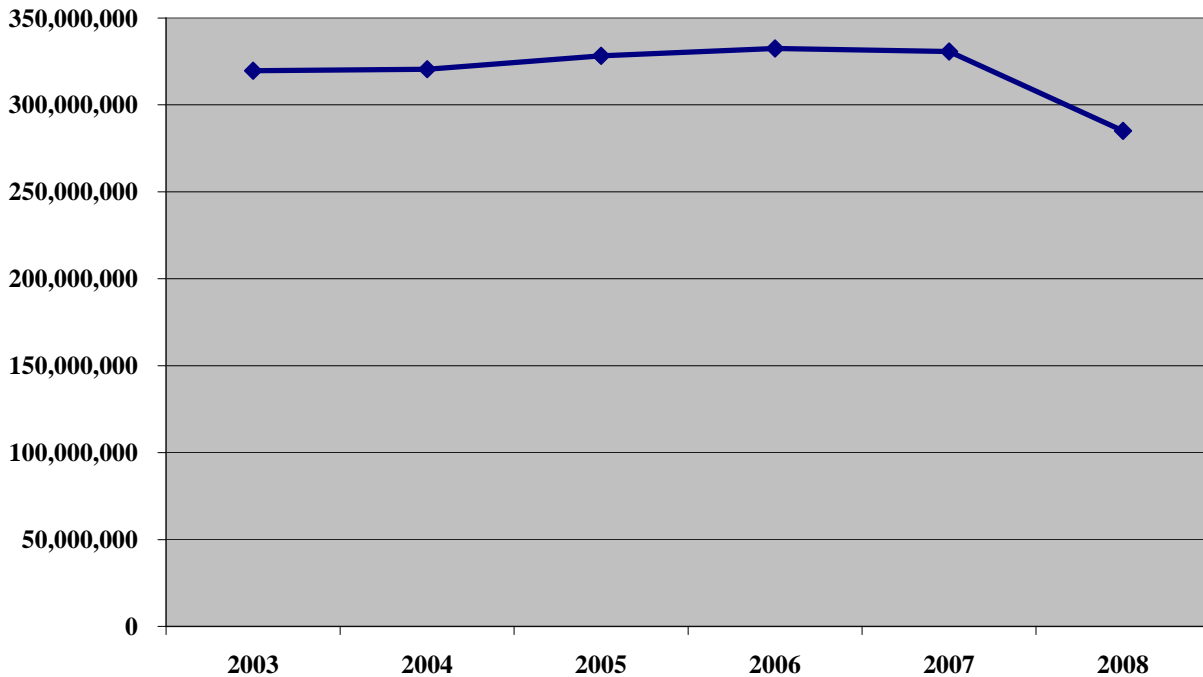
Data on cigarette sales and resultant revenue were obtained from the November edition of the monthly report, “Taxed Stamped Cigarettes”, issued by the Wisconsin DOR.² At the time of publication, sales and net cigarette tax collection data were available through October, 2008. In order to avoid potential bias from seasonal variation in tobacco sales, comparisons in this brief are based on the same 10-month periods for 2003 through 2007.

According to Wisconsin law, licensed tobacco retailers are “required to purchase their cigarettes for sale to Wisconsin consumers from permitted wholesalers who sell cigarettes on which the Wisconsin excise taxes have been paid, evidenced by the Wisconsin Cigarette Tax Stamp affixed to each pack of cigarettes”.³ The data presented in this brief feature sales and revenue information based on Cigarette Tax Stamps, rather than all cigarette sales. Although there are some modes of purchase exempt from the cigarette tax (i.e., cigarettes shipped via interstate commerce to customers outside the state for sale outside Wisconsin, cigarettes sold to Armed Forces or veterans’ hospitals, and cigarettes sold to interstate carriers of passengers for hire to be resold to bona fide passengers being transported),⁴ sales covered by the Wisconsin Cigarette Tax Stamps are a very large proportion of all cigarettes sold.

Results

Between 2003 and 2007, sales of cigarettes during the first ten months of each year changed by less than 3% from year to year. Between 2007 and 2008, sales declined by 13.8%. In the first ten months of 2008, 285 million pack sales were recorded by the Wisconsin DOR, compared to 330 million pack sales in 2007.

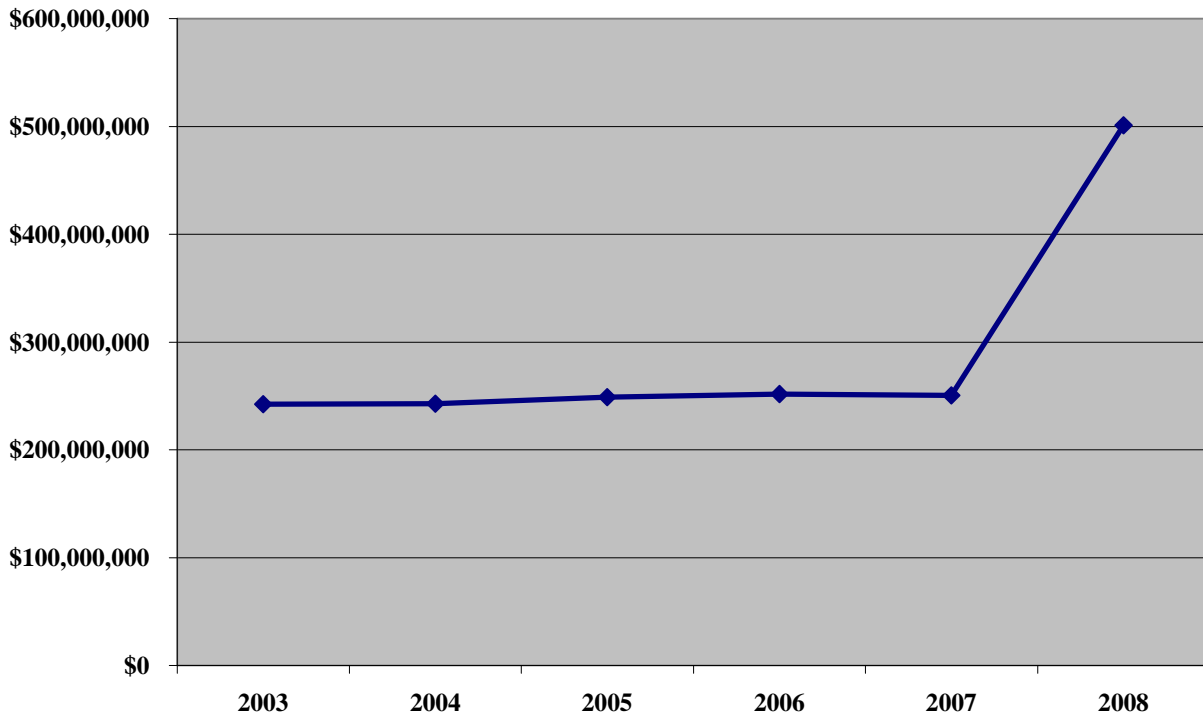
Figure 1. Packages of cigarettes sold (taxed at 20 cigarettes per pack rate), January-October only, 2003-2008



Data Source: Wisconsin Department of Revenue, Enterprise Services Division, Financial Management Services, Monthly Revenue Report (from WISMART). Net Tax Collections include initial tax and additional tax (office/field audit assessments), inventory tax (when applicable), and use tax (manufacturers, consumers), less refunds issued.

In the first ten months following the tax increase on January 1, 2008, revenue increased by 100% compared to the revenue collected during the same period in 2007. Revenue increased from \$250,592,664 in 2007, to \$501,036,117 in 2008.

Figure 2. Net cigarette tax collections, January-October only, 2003-2008



Data Source: Wisconsin Department of Revenue, Enterprise Services Division, Financial Management Services, Monthly Revenue Report (from WISMART). Net Tax Collections include initial tax and additional tax (office/field audit assessments), inventory tax (when applicable), and use tax (manufacturers, consumers), less refunds issued.

In 2007, \$10 million was allocated to the Wisconsin Tobacco Prevention & Control Program, which funds programs aimed at preventing youth from using tobacco and helping smokers quit. This amount is equivalent to approximately 3.3% of the *annual* cigarette tax revenue generated in 2007 (\$298,849,296). Based on current projections, an estimated \$588 million in cigarette tax revenues will be collected in 2008. The Wisconsin Tobacco Prevention & Control Program was allocated \$15 million in 2008 – or, an equivalent of 2.6% of the estimated annual cigarette tax revenue. Investment of tobacco tax revenue into tobacco prevention and control efforts, by percentage of revenue collected, has decreased.

Conclusions

Partial data from 2008 sales and tax collections show decreasing sales and increasing cigarette tax collections compared to January-October of 2007. Though preliminary, the first ten months of data from 2008 suggest a trend of reduced consumption following a cigarette tax increase, a

trend noted in the previous surveillance brief, “Cigarette Prices and Tobacco Consumption in Wisconsin: Implications of Increased Tobacco Taxes”.⁵ Although a variety of factors can confound the direct relationship between tax increases and changes in tobacco use, studies examining the impact of cigarette price on tobacco consumption suggest that a 10% increase in price can be expected to produce a 3% to 5% decrease in cigarette consumption.⁶

It is critical to continue monitoring the impact of the 2008 tobacco tax increase on the deterrence from smoking and encouragement of cessation, especially among youth and other price sensitive populations. Studies estimate that youth smokers are 2-3 times more likely than adult smokers to quit smoking or smoke less in response to price increases,⁷ and that a 10% price increase will result in a 7% reduction in the proportion of teenagers that smoke.⁸

Adequate investment of tobacco tax revenue into tobacco prevention and control efforts would capitalize on the positive impacts of this policy. According to the Centers for Disease Control and Prevention (CDC)’s Best Practices for Comprehensive Tobacco Control Programs—2007, increasing taxes is an important component of a comprehensive tobacco control program, along with implementing smoking bans, providing insurance coverage of tobacco cessation treatment, and limiting minors’ access to tobacco products.⁹ If cigarette sales continue at the rate observed in October through the end of the year, 11% of the net cigarette tax collections would fund the Wisconsin Tobacco Prevention & Control Program at the CDC recommended level of \$64 million annually.¹⁰

Limitations

Revenue collected from Taxed Stamped Cigarettes does not include other sources of cigarettes including the internet (estimated to constitute at least 5% of all sales prior to the tax increase),¹¹ or products smuggled from states with lower tobacco prices (amount unknown). Cigarette sales made on Indian reservations are eligible for a refund from the state. Cigarettes sold by the tribes to non-tribal members constitute 7% of all sales.¹²

References

1. U.S. Department of Health and Human Services. *Reducing Tobacco Use: A Report of the Surgeon General*. Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office of Smoking and Health; 2000.
2. Wisconsin Department of Revenue. *Revenue for Net Cigarette Tax Collections: February 2003-October 2008*. Wisconsin Department of Revenue, Enterprise Services Division, Financial Management Services, Monthly Revenue Report (from WISMART).
3. Wisconsin Statutes Section 134.65, subch. II of ch. 139.
4. Wisconsin Statutes Section 139.31 (3).
5. Brown K, Palmersheim K, Wegner M. *Cigarette Prices and Tobacco Consumption in Wisconsin: Implications of Increased Tobacco Taxes*. Surveillance Brief. University of Wisconsin Paul P. Carbone Comprehensive Cancer Center: 2007; 3(3).

6. Chaloupka FJ, Hu TW, Warner KE, Jacobs R, Yurekli A. The Taxation of Tobacco Products. In: Jha P, Chaloupka FJ, eds. *Tobacco Control in Developing Countries*. Oxford, United Kingdom: Oxford University Press; 2000.
7. U.S. Department of Health and Human Services. *Reducing Tobacco Use: A Report of the Surgeon General*. Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health; 2000.
8. Grossman M, Chaloupka FJ. Cigarette taxes. The straw to break the camel's back. *Public Health Rep*. 1997; 112(4):290-297.
9. Centers for Disease Control and Prevention. *Best Practices for Tobacco Control*. Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention; 2007. Available at: <http://www.cdc.gov/tobacco>.
10. http://www.cdc.gov/tobacco/tobacco_control_programs/stateandcommunity/best_practices/index.htm.
11. Campaign for Tobacco-Free Kids. *Internet Sales of Tobacco Products*. April, 2008. Available at: <http://www.tobaccofreekids.org/research/factsheets/pdf/0213.pdf>. Accessed December 19, 2008.
12. Wisconsin Department of Revenue. *Tribal Tobacco Sales*. September, 2008.