



## BENEFITS FROM A \$1.00 CIGARETTE TAX INCREASE IN KENTUCKY

**Current State Cigarette Tax: 30 Cents Per Pack (47th among all states)**  
**Smoking-caused costs in Kentucky: \$5.07 per pack**

**Annual healthcare expenditures in Kentucky directly caused by tobacco use: \$1.50 billion**  
**Smoking-caused state Medicaid program spending each year: \$487.0 million**

**FY 2008 state cigarette tax revenue: \$180.9 million**  
**Expected FY 2009 cigarette tax revenue (without a rate increase): \$172.2 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>\$277.3 million</b>
<b>Percent decrease in youth smoking</b>	<b>23.5%</b>
<b>Kids in Kentucky kept from becoming addicted adult smokers</b>	<b>78,500</b>
<b>Current adult smokers in the state who would quit</b>	<b>49,500</b>
<b>Smoking-affected births avoided over next five years</b>	<b>17,950</b>
<b>Kentucky residents saved from premature smoking-caused death</b>	<b>38,200</b>
<b>5-year health savings from fewer smoking-affected pregnancies &amp; births</b>	<b>\$30.5 million</b>
<b>5-year health savings from fewer smoking-caused heart attacks &amp; strokes</b>	<b>\$33.5 million</b>
<b>Long-term health savings in state from adult &amp; youth smoking declines</b>	<b>\$1,844.0 million</b>

- 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).
- When raising its cigarette tax rate, Kentucky should bring its tax rates on other tobacco products (OTPs) to parallel levels to promote tax equity and maximize related state revenues, public health benefits, and cost savings. To parallel the new cigarette tax rate of \$1.30 per pack, the state's new OTP tax rate should be at least 55% of the wholesale price.
- These projections assume that Kentucky 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. Projections assume that the state tax will keep up with inflation and are for net new revenues above the actual cigarette tax revenues in the year preceding the tax increase. 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 1.06.09 / Ann Boonn & Eric Lindblom, January 7, 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.