Abstract

Raising tobacco taxes can have an income distributional impact on the population. Since lower socio-economic groups usually smoke more, they also contribute more to total cigarette tax collection. Thus, those who can afford it least contribute the most in terms of tobacco taxes. This means that tobacco taxes are regressive. However, tobacco tax increases are likely to be progressive, decreasing the relative tax incidence on the poor, vis-à-vis the rich. This is based on the premise that the poor are likely to be more sensitive to price changes, and would thus reduce their cigarette consumption by a greater percentage than the rich in response to an excise tax-induced increase in cigarette prices. Recent empirical studies confirm this hypothesis by demonstrating that the price responsiveness of cigarette demand increases with income. Research in China confirmed that reducing cigarette expenditures could release household resources for spending on food, housing, and other goods that improve living standards. Therefore, in the long run, tobacco control measures will reduce social inequality.

Keywords
Economic policy, tobacco, control, taxes.