

Abstract

The paper addresses the impact of smoking in the Czech Republic in 2009. The aim is to describe the current facts and trends of tobacco consumption, assess the mortality attributable to smoking, compute its financial impact on the Czech state budget, evaluate the transmission of tax changes into the retail price of cigarettes, assess consumer price elasticity for cigarettes, and compute a fair excise tax on cigarettes for the Czech Republic as well as the tax which would maximise the benefits of smoking for the state budget. For our purposes, we define “fairness” as a situation in which there is no net redistribution of state budget funds between two groups of citizens: non-smokers and smokers. Smokers create benefits (for example, savings on pensions due to their earlier deaths) and costs (for instance, increased health care costs) for the state budget. We search for a tax rate that would balance smoking-associated costs and benefits. To the best of our knowledge, there has been no prior work evaluating “fair” tax for cigarettes as we define it. Furthermore, we also compute the tax rate which would maximise net revenues from smoking to the government.