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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 1175 HD 1
RELATING TO TAXATION**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 2, 2009

TIME: 4:44PM

ROOM: 308

This measure, proposes to increase the cigarette tax from 10 cents to 14 cents per cigarette starting July 1, 2009. The cigarette tax is currently scheduled to increase to 11 cents per cigarette on September 30.

The Department of Taxation (Department) **supports the intent** of this measure.

The Department supports the intent of this measure as a means of generating revenue for the general fund. The Department suggests that the Committee pass this measure out as a means of resolving the State's budget issues this session in order to allow for further discussion on potential solutions.

This measure will result in a revenue gains to the general fund:

- FY 2010 = \$32.3 million
- FY2011 = \$25.1 million
- FY2012 = \$14.4 million
- FY2013 & after = \$10.8 million

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1175

March 2, 2009

RELATING TO TAXATION

House Bill No. 1175 increases the cigarette tax from 10 cents per cigarette to 14 cents per cigarette beginning July 1, 2009.

We support moving this bill forward to foster continued discussions. During these difficult times and considering the grave fiscal condition we are facing, all options must be kept open. While it is recognized that this bill may be unpopular, we will need to make difficult decisions to address our budget shortfall and ensure the fiscal health of our State.

It is estimated that this bill would increase the amount of revenues to the general fund by \$32.3 million (Fiscal Year 2010), \$25.1 million (Fiscal Year 2011), \$14.4 million (Fiscal Year 2012), \$10.8 million (Fiscal Year 2013), \$10.8 million (Fiscal Year 2014), and \$10.8 million (Fiscal Year 2015).

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TOBACCO, Increase tax on cigarettes

BILL NUMBER: HB 1175, HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 243-3 (a) to increase the tax on cigarettes from 11 cents to 14 cents per cigarette on July 1, 2009.

EFFECTIVE DATE: Upon approval

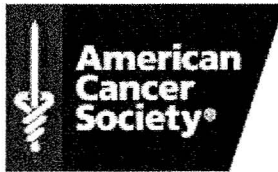
STAFF COMMENTS: The legislature by Act 316, SLH 2006, provided for a staged increase on the tax on cigarettes and provided that any moneys collected in excess of what would have been collected at the tax rate of 7 cents per cigarette are to be distributed to various special funds. While Act 316 also provided staged increases up to 2011 in the distribution of such revenues for the various funds, it provides that between 9/30/08 and 9/29/09: 2.0 cents to be deposited into the Hawaii cancer research fund; 0.5 cents paid into the trauma system special fund; 0.25 cents deposited into the community health centers special fund, and 0.25 cents deposited into the emergency medical services special fund.

If this measure is enacted and takes effect on July 1, 2009, it would result in an additional 4 cents to be deposited into the general fund. It should also be remembered that the rising cost of the product may, in fact, jeopardize funding of these programs. In addition, with the federal government's newly adopted increase of \$1.00 per pack, the tax per pack of cigarettes in Hawaii will rise to \$3.80. As the product becomes more expensive, there will, no doubt, be a reduction in consumption or more untaxed product purchased. This, in turn, will jeopardize the funding of the specified programs making this resource less and less dependable as a funding mechanism for the earmarked programs.

The notion that the state general fund can be balanced with an increase in "sin" taxes on tobacco and alcohol products is ludicrous. First, as noted above, the higher one pushes the cost of these products, the greater the possibility of actually seeing a decline in consumption as consumers moderate or eliminate consumption. Second, much of the consumption of these products, in particular alcoholic beverages, is made by visitors which, as hotels have reported, are dwindling in numbers. Thus, the base for both of these tax resources will begin to shrink until the visitors return. Thus, these tax resources cannot be counted upon to raise revenues to balance the state budget. Thus, legislators will suffer great angst in raising these taxes and will have very little to show for their political risk. In fact, as was evidenced in the states of New Jersey and Maryland, lawmakers there counted on an increase in the cigarette taxes to help balance their budgets only to learn that collections actually went down below their prior levels. Thus, care should be exercise in targeting these resources for a quick fix to the state's financial woes.

Finally, lawmakers need to remember that the amount payable to the state under the Master Settlement Agreement (MSA) with the tobacco companies is dependent on the amount of product purchased and consumed nationwide. With the rise in the federal tax and potential state tax increases, there is no doubt that it will affect consumption of this product and, therefore, the amount of money the states receive under the MSA.

Digested 3/2/09



February 28, 2009

Committee on Finance
Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair

Hearing:

4:44 P.M., Monday, March 2, 2009
Hawaii State Capitol, Room 308

RE: HB1175, Relating to Taxation

TESTIMONY IN STRONG SUPPORT WITH AMENDMENTS

Good afternoon Chair Oshiro, Vice Chair Lee, and members of the Committee on Finance. Thank you for the opportunity to testify in strong support of HB1175, which increases the cigarette tax from 10 cents per cigarette to 14 cents per cigarette beginning July 1, 2009.

The American Cancer Society Hawaii Pacific Inc., was founded in 1948, and is a community-based, voluntary health organization dedicated to eliminating cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer, through research, education, advocacy, and service. This mission also includes advocating for strong tobacco control measures that reduce tobacco use through tax increases on all types of tobacco products including cigarettes.

Three years ago, the American Cancer Society strongly supported legislation that raised the cigarette tax in Hawaii which allocated a portion of the new revenues raised into the Hawaii Cancer Research Center Special Fund for a new research facility in Kakaako, and operating expenses.

Without going into great detail, we would note for the committee that numerous economic studies in peer-reviewed journals have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that every 10% increase in the real price of cigarettes reduces overall cigarette consumption by approximately three to five percent, reduces the number of young-adult smokers by 3.5%, and reduces the number of kids who smoke by 6 or 7%. Also, in filings with the U.S. Securities and Exchange Commission the cigarette companies have publicly admitted the effectiveness of cigarette tax increases to deter smoking.

The Society would also request that the committee amend this measure by increasing the tax on other tobacco products from 40% of the wholesale price to 80% of the wholesale price with a percentage of the increase going to the Community Health Centers Fund, to ensure the viability of this health safety net.

Mahalo for giving me the opportunity to provide testimony here today.

Very truly yours,

A handwritten signature in cursive script, appearing to read "G. Massengale".

George S. Massengale, JD
Director of Government Relations

American Cancer Society Hawai'i Pacific, Inc., 2370 Nu'uuanu Avenue, Honolulu, Hawaii 96817-1714
•Phone: (808) 595-7500 •Fax: (808) 595-7502 •24-Hour Cancer Info: (800) 227-2345 •<http://www.cancer.org>

Testimony In Support of HB 1175, HD1

The American Heart Association (AHA) of Hawaii strongly supports HB 1175, HD1. A one time sizeable tax increase would have a greater impact on reducing smoking rates in Hawaii, especially on the lower income and youth markets, which are more price sensitive, and which are the most highly targeted by tobacco company marketing and advertising.

Because smoking levels are highest among people with low incomes, the cigarette companies try to argue that cigarette tax increases are regressive taxes that fall disproportionately hard on lower-income families and communities. But this argument turns reality upside down. These are the same companies that have been preying on low-income and poor communities for decades. In fact, from 1998 to 2002 the cigarette companies increased the prices they charge for their cigarettes by more than \$1.00 per pack (and by more than two cents for every cent needed to cover all of their costs from the state tobacco lawsuit settlements). The cigarette companies have no problem with levying new charges on low-income smokers when it increases their own profits. They only oppose the new charges when someone else (like a state government) gets the new revenues, instead.

The fact that smoking rates are highest among lower-income groups means that lower-income families and communities currently suffer the most from smoking and will, consequently, benefit the most from any effective new measures to reduce smoking, including increased state cigarette taxes. Their health problems caused by tobacco use also disproportionately affect Medicaid costs to the state.

Smokers who do not reduce their smoking because of a cigarette tax increase will also still benefit economically, along with every other state taxpayer. Right now, smoking produces a “hidden tax” that totals more than \$40 billion per year to pay for smoking-caused state and federal healthcare costs. Smoking declines caused by state cigarette tax increases directly reduce these smoking-caused tax burdens for all taxpayers.

While tobacco tax increases that raise cigarette prices prevent and reduce smoking among all income groups, they work most powerfully to prompt lower-income smokers to quit or cutback and to stop lower-income kids from every starting. As a result, low-income families and communities will not be the victims of any cigarette tax increase but its biggest beneficiaries.

The cigarette companies’ regressivity argument fails to account for each of the following facts:

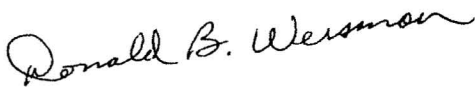
- Increases to state cigarette tax rates will not place any new financial burdens of any kind on the 85 percent of Hawaii adults who neither smoke cigarettes nor buy them.
- While new cigarette tax increases will raise cigarette prices, many current smokers will avoid the higher prices by quitting, cutting back, or switching to cheaper cigarettes – and lower-income smokers are much more likely than higher-income smokers to quit or cut back in response to price increases. In fact, all of the smokers who quit and many of those who cut back because of cigarette tax increases would actually save money by spending less on cigarettes.
- Those who stopped smoking in response to cigarette tax increases would greatly improve their own health, which could also significantly reduce their healthcare costs. Because of their higher rate of illness and disability, smokers have substantially higher annual and lifetime healthcare costs than nonsmokers or former smokers (despite living shorter lives). Healthcare expenditures caused by

smoking total more than \$96 billion per year nationwide, with billions being paid directly by smokers, either through direct healthcare payments or increased health insurance premiums. Tobacco use costs all Hawaii taxpayers and businesses an estimated half-billion dollars each year in smoking-attributable direct medical expenditures and smoking-attributable loss of productivity.

- Any significant state cigarette tax increase also would bring in millions of dollars per year in new government revenues, thereby reducing pressures for other, broader-based tax increases. **Smokers who quit would likely spend the money saved from paying for cigarettes on other products or services that would benefit the state tax coffers without adding to healthcare costs.**
- The smoking declines produced by significant cigarette tax increases save lives, reduce human suffering, promote the public health, and prevent more kids from becoming addicted to smoking or ultimately dying from it – and these results are disproportionately experienced among low-income persons, families, and communities. Even those low-income smokers who do not change their behavior because of tobacco tax increases still benefit from having fewer family members, friends, and neighbors falling victim to tobacco use.
- **Low-income smokers and their communities disproportionately benefit when the new revenues from cigarette tax increases are directed to programs to help people quit smoking and prevent kids from starting** – both because smoking is more prevalent among low-income persons and because they may have much less access or exposure to any such programs than people with higher incomes.
- Not surprisingly, in poll after poll low-income Americans – along with all other Americans – strongly support higher cigarette taxes in order to prevent and reduce youth smoking.

The American Heart Association of Hawaii urges you to support HB 1175, HD1.

Respectfully submitted,



Donald B. Weisman
Hawaii Communications and Marketing/Government Affairs Director



COALITION FOR A
TOBACCO-FREE HAWAII

To: Chair Marcus R. Oshiro
Vice Chair Marilyn B. Lee
Members, House Committee on Finance
From: Trisha Y. Nakamura, Policy and Advocacy Director
Date: March 1, 2009
Hrg: House Cmte on Finance; March 2, 2009 at 4:44 p.m.
Re: **Strong Support for HB 1175 HD 1, Relating to Taxation**

Thank you for the opportunity to testify in strong support of HB 1175 HD 1, which would increase the cigarette tax from 10 cents to 14 cents per cigarette beginning July 1, 2009.

The Coalition for a Tobacco Free Hawaii (Coalition) is the only independent organization in Hawaii whose sole mission is to reduce tobacco use through education, policy and advocacy. Our organization is a small nonprofit organization of over 3,000 partner organizations and advocates that works to create a healthy Hawaii through comprehensive tobacco prevention and control efforts.

Hawaii has the second-lowest smoking-related deaths in the nation. Still, tobacco use remains the number one cause of preventable death. Tobacco is responsible for over 1,200 deaths per year in Hawaii and costs over \$330 million dollars in direct medical related costs.

Numerous studies have shown that increasing cigarette taxes is effective at preventing kids from becoming regular, addicted smokers. Price was found to have the greatest impact on preventing youth from becoming daily and relatively heavy daily smokers. Price increases have also been shown to reduce the smoking rates of pregnant women, thus reducing the risk factors for neonatal mortality and other smoking-related complications.

Some opponents may argue that this increase will lead to a decrease in tax revenue. However, failure to increase cigarette tax rates result in a revenue loss over time due to inflation and smoking declines. The State ultimately stands to save in smoking-related health costs as smoking rates decline.

Like the tax increase on smokeless tobacco, increasing the tax on cigarettes is a win-win for our State during this difficult economic time. Please pass this measure out of Committee. Thank you for the opportunity to testify on this matter.