

HB 895 HD 2

Measure Title:	RELATING TO TAX ON TOBACCO PRODUCTS OTHER THAN CIGARETTES.
Report Title:	Tobacco Products Tax Increase; Community Health Centers Special Fund
Description:	Increases the tobacco tax on tobacco products other than cigarettes from 40 percent to 80 percent of the wholesale price and deposits an unspecified percentage of the proceeds collected into the Community Health Centers Special Fund. (HB895 HD2)

LINDA LINGLE
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JAMES R. AIONA, JR.
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**SENATE COMMITTEE ON HEALTH
TESTIMONY REGARDING HB 895 HD 2
RELATING TO TAX ON TOBACCO PRODUCTS OTHER THAN CIGARETTES**

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

DATE: MARCH 16, 2009

TIME: 2:30PM

ROOM: 016

This measure, among other things, proposes to increase the tobacco tax on non-cigarette tobacco items. This measure also creates a new special fund.

The House Committee on Health amended the measure's effective date.

The House Committee on Finance increased the amount of the tax increase and amended the amount deposited to the special fund to an unspecified amount.

The Department of Taxation (Department) **opposes this tax increase and diversion of the general fund revenues.**

The Department does not support the tax increase contained in this measure. With the slowing economy impacting struggling families, tax increases should be avoided as much as possible. The Department is also strongly concerned with the timing of this legislation because the state and nation are in a recession where taxpayers are worried about their finances. This tax is highly regressive and will impact the poor the most.

Creation of new special funds will not help with this year's budget constraints. Regardless of the merits of the special fund proposed in this legislation, the Department cannot support a tax increase of this kind to be deposited into a special fund. Any sin tax increase this session must be deposited to the benefit of the general fund.

Assuming a current effective date, annual tobacco tax collection will increase \$2.3 million in FY 2010 (8 months w/ 1-month lag), and \$3.5 million in FY 2011 and after.



Hawai'i Primary Care Association

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To: **The Senate Committee on Health**
The Hon. David Y. Ige, Chair
The Hon. Josh Green, MD, Vice Chair

Testimony in Support of House Bill 895, HD 2 **Relating to Tax on Tobacco Products Other Than Cigarettes**

Submitted by Beth Giesting, CEO

March 16, 2009, 3:00 p.m. agenda, Room 016

The Hawaii Primary Care Association urges your support for this measure that would increase taxes on tobacco products and direct part of the funding to the Community Health Center (CHC) special fund. We believe that both of these purposes are good and timely public health policy.

CHCs make up one of the most viable health care systems in Hawaii and, because of the advantages they derive from as federally qualified health centers, and their clinically effective and cost-saving model of care, should be looked to for expansion. New funds from this source could be used for CHC capital and system infrastructure development since working capital is otherwise so hard to come by for this nonprofit system of care. This was, of course, the intent of the CHC cigarette tax earmark legislated in 2006 but that is now needed just for basic operations as they are budgeted to supplant general funds in the next fiscal biennium.

Such an investment in Community Health Centers (CHCs) will also help pay for otherwise uncompensated tobacco cessation programs at the centers. CHCs are serving the people who are most likely to use tobacco products and thus in greatest need of tobacco intervention. Unfortunately, their programs are generally underfunded – if funded at all – by other tobacco settlement dollars, which are also targeted for reduction in the coming fiscal biennium.

We would ask that the committee consider **increasing the proposed percentage of the tax** in order to provide a stronger deterrent, especially for young people who are more sensitive to costs.

Thank you for the opportunity to support this bill.

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SUBJECT: TOBACCO, Increase tax; disposition of revenues

BILL NUMBER: HB 895, HD-2

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 245-1 to amend the definition of "tobacco products" to include smokeless tobacco and pipe tobacco.

Amends HRS section 245-3 to increase the tax on the wholesale price of tobacco products from 40% to 80%.

Amends HRS section 245-15 to provide that after September 30, 2009, ____% of the amount of tax collected on tobacco products other than cigarettes shall be deposited into the community health centers special fund.

EFFECTIVE DATE: July 1, 2020

STAFF COMMENTS: This measure increases the tax on tobacco products other than cigarettes from 40% of wholesale price to 80% and diverts ____% of the amount collected on tobacco products other than cigarettes into the community health centers special fund. The measure also provides that smokeless tobacco and pipe tobacco shall be subject to the tobacco tax.

While lawmakers and taxpayers may believe this earmarking of the tobacco tax will insure that the designated programs will be funded into the future, it should be remembered that the rising cost of the product may, in fact, jeopardize funding of these programs. The state cigarette tax is scheduled to rise to \$2.60 per pack by the year 2011. 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 \$3.60. 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 a less dependable funding mechanism for the earmarked programs. When the tax went from \$1.60 to \$1.80 per pack there was an actual decline in the number of packs sold.

This proposal highlights one of the distortions that occurs when product price increases and consumption either decreases or in the case where the tax is based on the cost or value of the product, tax collections will be adversely affected. Until 1993, all tobacco products were taxed at a rate of 40% of the wholesale value of the product plus the 0.5% general excise tax rate and, of course, the 4% general excise tax at retail. When the tax on cigarettes was converted to a per unit basis in 1993, it put all cigarettes, regardless of value, on parity. So inexpensive product was taxed at the same rate as more expensive product even though the difference in cost may have been attributed only to the cost of marketing and advertising the more costly product. As lawmakers increased the tax per pack over the years and the cost of making the product also increased the retail price, smokers had three choices, either pay more

for their preferred brand, quit smoking, or trade down to a less costly product. While quitting smoking will definitely spell a loss in tax revenues for the state, trading down to a less costly brand will not.

This is an important point to note with respect to all other tobacco products. While this measure increases the tax on all other tobacco products from 40% to 80%, lawmakers should consider restructuring the way other tobacco products are taxed to insure stability in the collection from the sales of these products. Instead of continuing to set the tax as a percent of the wholesale value, consideration should be given to moving to a per unit approach like the taxing of cigarettes. A review of what other states impose indicates that while some products continue to be taxed on an ad-valorem basis, smokeless tobacco products are taxed on the basis of weight. This would insure that all such tobacco products are taxed in the same manner regardless of their wholesale price. Such is the case with the cigarette tax which is levied on a per unit basis. There are some 14 states which already employ the weight approach for smokeless tobacco. In the most recent conversion to weight based taxes on smokeless tobacco products, New Jersey experienced a 19% increase in revenues from this product.

In making the conversion to so many cents per ounce, lawmakers may want to utilize the current tax collected on the most expensive product and divide that amount by the number of ounces. While this will result in an initial bump in collections as the tax on less costly product will see an increase, it will bring parity to these types of products and stabilize collections as users migrate to less costly brands or products as the cost rises.

While the weight approach is now employed for other products, lawmakers may want to consider studying how other tobacco products which are currently subject to the 40% ad valorem imposition can be taxed in the alternative. That alternative should be designed to lend stability to revenues produced from these other tobacco products and gives parity to all products of the same nature without regard to wholesale value.

While not contained in this bill, 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 the 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 exercised 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.



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Testimony for HB 895, HD 2 “Relating To Tobacco”

The American Heart Association supports the intent of HB 895, HD 2, but recommends several amendments.

A portion of new funds realized from any tobacco tax increase should be directed toward further tobacco prevention and education. Hawaii current investment remains well below the Centers for Disease Control’s recommended spending in tobacco and prevention. The CDC recommends that Hawaii invest \$15.2 million per year on tobacco prevention, education and cessation programs to fully achieve success in reducing tobacco dependence. Hawaii last year allocated \$11.3 million a year for tobacco prevention and cessation, which includes both state and federal funds. It is not clear how much the state actually invests annually in tobacco prevention and cessation through the State Tobacco Trust Fund, but it is likely below \$10 million per year.

In addition, the AHA recommends that the state attempt to set the tax on “other tobacco” products at a level comparable to what its cigarette tax will be when the current cigarette tax increase is fully implemented in 2011. In the future, any cigarette tax increases should be accompanied by a comparable increase in the tax on other tobacco products to insure that hikes in cost for one type of tobacco product don’t drive potential young customers toward the cheaper type of tobacco. The goal of any tobacco tax increase should be primarily to achieve a reduction in use of tobacco products, especially by price-sensitive young people. The costs to the state for medical care alone related to tobacco use far outweigh the benefits in taxes collected on tobacco sales.

What do nicotine and tobacco smoke do to the body?

Nicotine causes a short-term increase in blood pressure, heart rate and the flow of blood from the heart. It also causes the arteries to narrow. Users of smokeless tobacco are exposed to levels of nicotine that are comparable to cigarette smokers. In addition, smoke from other tobacco products like cigars include carbon monoxide, which reduces the amount of oxygen the blood can carry. This, combined with the nicotine effects, creates an imbalance between the demand for oxygen by the cells and the amount of oxygen the blood can supply. Tobacco smoke also increases the risk of developing hardening of the arteries and heart attacks in several ways. First, carbon monoxide damages the inner walls of the arteries, encouraging fatty buildups in them. Over time, this causes the vessels to narrow and harden. Nicotine may also contribute to this process. Smoking also causes several changes in the blood that make clots—and heart attack—more likely. Cigar and pipe smoking increases the risk of abdominal aortic aneurysm by as much as six times compared to never-smokers. Smoking cigars or pipes doubles the risk of fatal stroke compared to never-smokers. Smoking cigars or pipes and cigarettes increases the risk for fatal stroke by six times compared to never-smokers. Pipe smoking has been found to increase coronary heart disease risk by almost as much as cigarette smoking. Some studies have shown that smokeless tobacco results in as much as a 40 percent increased risk of dying from cardiovascular disease.

Caution About Switching to a Weight-Based Tobacco Tax System

Legislators should be cautioned about falling into the tobacco companies’ trap of switching to a weight-based formula for calculating the tax on “other tobacco” products rather than through a percentage of the wholesale or retail price. Over time, such shifts to a weight-based tax dramatically reduce the portion of state revenues gained from their smokeless tax, reducing the

Information on the AHA's

For more information on the AHA's national or research programs, contact your nearest office, or visit our web site at www.americanheart.org or contact us at hawaii@heart.org

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effective tax on the kinds of higher-priced premium products that the larger companies sell and increasing the effective tax on lower-priced brands, predominantly sold by smaller competitors.

In contrast, a percentage-of-price tax levies a fixed percentage tax on all smokeless products, ensuring that those products that bring in higher amounts of revenue and profits also pay higher amounts per can or dose while still paying the exact same percentage tax as less profitable brands. Taxing by weight also provides a massive tax break to the new generation of smokeless tobacco products (e.g. Ariva, Stonewall, Snus products) that can weigh as little as one-tenth as much as standard smokeless products. Accordingly, states with weight-based smokeless or moist snuff taxes will see their revenues shrink as this new wave of super-low-weight products takes over more and more of the total smokeless market. To ensure that smokeless tobacco brands that engage in unfair competition or predatory pricing still pay reasonable amounts of tax, the state could simply add a minimum tax onto its existing percentage-of-price tax system.

But it is not just an issue of premium versus lower-price brands. The vast majority of kids who use smokeless tobacco use the higher-priced premium brands, such as Copenhagen. By ultimately lowering the price on the smokeless tobacco products most popular with kids, shifting to a weight-based tax would increase smokeless tobacco use among youths.

Setting Smokeless Tobacco Tax Rates Effectively

Simply raising all state tobacco taxes will produce enormous benefits by reducing overall tobacco use, with an especially powerful negative effect on tobacco use by kids. At the same time, it is important to make sure that the tax rates on all tobacco products are roughly comparable, to minimize shifts from one tobacco product to another cheaper one and to maximize the overall reduction in tobacco use.

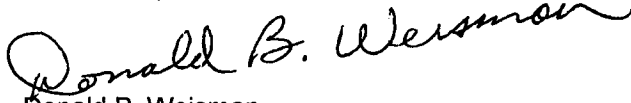
The model language provided by the Campaign for Tobacco-Free Kids and added at the end of this testimony does all that by adding an alternative tax rate for the major categories of tobacco product to make sure that they are, at a minimum taxed at a rate equal to the state's cigarette tax rate. The language tries to do that in a very clear and understandable, common-sense way by, for example, setting the minimum tax on a typical can of smokeless equal to the state's tax on a pack of cigarettes, taxing smokeless that comes in single-dose units at the state's single-cigarette tax rate, and setting a minimum tax on 5-packs of cigarillos and blunts equal to the state tax on a pack of cigarettes.

The model language also:

- 1) Establishes that the tax rates on all the different tobacco products would increase whenever the state's cigarette tax rate is increased (which should also help the tax rates keep up with inflation and product price increases).
- 2) Sets new minimum tax rates for low-priced smokeless tobacco products that will increase over time.
- 3) Makes sure that not just little-cigar cigarettes but also cigarillos and blunts pay tax rates at least as high as the state tax on cigarettes -- but in ways that should avoid prompting opposition from high-priced premium cigar manufacturers.
- 4) Would be enormously helpful for reducing overall use levels and promoting public health by raising the effective OTP tax rates, especially on lower-priced brands in each category, and making sure the rates will keep up with future state cigarette tax increases.

In conclusion, it is important to both maintain a balance between the taxes on cigarettes and the tax on "other tobacco" products in order to continue to drive down Hawaii's youth smoking rates. It is just as important to maintain the level of investment in tobacco prevention, education and cessation programs at or near the CDC's minimum recommended amounts. The AHA strongly recommends that a portion of any new tobacco tax revenue be earmarked to support those life-saving programs.

Respectfully submitted,



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

MODEL LEGISLATION FOR CREATING TOBACCO PRODUCT TAX EQUITY
[An add-on provision for states with any percentage-of-price OTP tax.]

Sec. _____. **Alternative Tobacco Product Tax Rates.** To promote tax equity and fairness, reduce tobacco use and its many harms and costs, and to ensure that no tobacco products subject to the tax rates established elsewhere in this chapter can evade reasonable taxation through predatory or other anti-competitive or bargain-basement pricing, the following alternative tax rates are established.

- (a) The tax on all smokeless tobacco products consisting of loose tobacco that are not sold in discrete single-use, single-dose lozenges, pouches, pills, capsules or other units shall be the higher of the percentage-of price tax rate for tobacco products established in this chapter or, for the first 1.2 ounces or less, the same amount as the total tax on a pack of 20 cigarettes established by this chapter with a proportionate tax at the like rate on any fractional parts of more than 1.2 ounces, based on the net weight as listed in good faith by the manufacturer on the product package.
- (b) The tax on any tobacco product other than cigarettes or cigars that is offered in discrete single-use, single-dose lozenges, pouches, pills, capsules or other units, or in packages of such single-dose units, shall be taxed at the higher of the percentage-of price tax rate for tobacco products established in this chapter or at a rate per single dose unit equal to the per-cigarette amount of the total tax placed on cigarettes in this chapter.
- (c) The tax on any cigar shall be the higher of the percentage-of price tax rate for tobacco products established in this chapter or a rate equal to the amount of the total tax on a pack of 20 cigarettes established by this chapter per package of up to five cigars and a proportionate tax at the like rate for any package of cigars containing more than five cigars, except the tax on any single cigar shall not exceed an amount equal to the total tax established by this chapter for a pack of 20 cigarettes.
- (d) The tax on any roll-your-own tobacco shall be the higher of the percentage-of price tax rate for tobacco products established in this chapter or a rate equal to the amount of the total tax on a pack of 20 cigarettes established by this chapter for the first 0.65 ounces or less and a proportionate tax at the like rate on any other weights of roll-your-own tobacco, based on the net weight as listed in good faith by the manufacturer on the product package.
- (e) Any other product containing tobacco that is intended or expected to be consumed that is not a cigarette, as defined in this chapter, and is not subject to any of the previous paragraphs herein shall be taxed at the higher of the percentage-of price tax rate for tobacco products established in this chapter or at a rate equal to the amount of the total tax on a pack of 20 cigarettes established by this chapter per each single consumer personal-use package or container. For containers sold to consumers that contain multiple discrete smaller tobacco product packages or containers that may be used individually, this paragraph shall apply to each of those smaller individual discrete packages or containers.

(f) The Department of Revenue may issue regulations as necessary to implement this section.

Notes: Regular moist snuff smokeless tobacco is typically sold in 1.2 ounce cans. Cigarillos and blunts (often sold in kid-attracting flavors) typically come in packages of five. 20 Roll-your-own (RYO) cigarettes weigh 0.65 ounces, or 20 X 0.0325 ounces. 0.0325 ounces of RYO tobacco per cigarette is the equivalency rate used in the MSA and in setting the new federal tax rate for RYO tobacco to make it equal the new federal tax rate on regular cigarettes.



March 14, 2009

Committee on Health
Senator David Ige, Chair
Senator Josh Green, M.D., Vice Chair

Hearing:

3:00 P.M., Monday, March 16, 2009
Hawaii State Capitol, Room 016

RE: HB895,HD2, Relating to Tax on Tobacco Products Other than Cigarettes

Testimony in Strong Support

Chair Ige, Vice Chair Green, and members of the Committee on Health. Thank you for the opportunity to testify in strong support of HB895, HD2, which increases the excise tax on tobacco products other than cigarettes; and designates a yet to be determined percentage of the proceeds to the community health centers special fund.

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 is consistent with the Society's ambitious 2015 goals of slashing the cancer mortality rate by 50%, reducing the incidence of cancer by 25%, and improving the quality of life of cancer patients and survivors by reducing the pain and suffering that cancer causes.

Oral and pharyngeal cancer continues to be a significant health problem in the United States and in Hawaii. Approximately 30,000 new cases of oral cancer are diagnosed each year. In Hawaii, the oral/pharyngeal cancer rate is 9.2% per 100,000 of population. Currently, one-third of those patients who receive a diagnosis of oral cancer will eventually die of their disease. The long term survival of oral cancer patients is, as in most cancers, directly proportional to early detection, diagnoses, and treatment.

The use of tobacco products, cigarettes, cigars, pipes, and smokeless tobacco products (spit, snuff, and chewing tobacco) has emerged as a major preventable risk factor for a number of oral diseases and disorders. Unfortunately, shameless marketing of tobacco products to our children and young adults is having a negative impact in Hawaii. The use rates for smokeless tobacco products is moving upwards, as indicated by the increase in tax revenues on these products.

In our previous testimony this measure we gave important reasons as to why this tax should be increased:

1. The current tax rate of 40% of the wholesale prices was established in 1965 and has never been increased. Other states have much higher rates; Massachusetts has a 90% rate, Maine 78%, Washington 75%, Minnesota 70%, and Oregon 65%.
2. It is well established by scientific research and the experiences of numerous states that increasing the state tax rates on non-cigarette tobacco products not only raises new revenues but also helps to reduce tobacco use levels, especially among youth.

3. With Hawaii's economy in dire straights, substantiality raising the tax rate and dedicating portions of the increase to tobacco control and other safety net health programs, such as community health centers, will ensure the sustainability of those programs as additional demands are placed on them by laid off workers, the underinsured and uninsured.

The Society continues to believe that this tax increase should be substantial, and we are pleased that the House doubled the tax rate to 80%. In 2008, the Department of Taxation reported \$3.47 million in tax collections on other tobacco products. We would point out that quadrupling the rate could produce \$13.88 million in revenues.

Community Health Centers Allocation:

We are in complete support of depositing a percentage of the proceeds collected into the community health centers special fund. As our economy continues to spiral downward, there will be many job layoffs. Thousands will lose their health coverage and will join the roles of the uninsured or underinsured. Our state's community health centers have been the safety net for those individuals who are unable to obtain primary health care. It is critical that we ensure the sustainability of our community health centers. We should not reduce access to care options in the coming hard times. It should be noted that community health centers also provide critical follow-up services for cancer patients with limited resources. In addition, our community health centers are on the front-line in providing screenings for the detection of cancers. If these services were not available many more of our residents would die from cancer.

Proposed amendment to include an allocation to the Hawaii Tobacco Prevention and Control Trust Fund:

There is another measure that has been passed by the House, HB1731, which reduces from 12.5% to 2% Master Settlement Agreement dollars that are allocated to the Hawaii Tobacco Prevention and Control Trust Fund. We would request that this committee, in addition depositing a percentage of the proceeds collected into the community health centers special fund, **amend this bill to deposit a percentage revenues collected to the tobacco prevention and control trust fund.**

We would add, that in other states that have cut back on funding tobacco prevention and cessation programs, smoking rates platitude. Hawaii had done an excellent job in addressing the harm caused by tobacco use. Because of these efforts we have one of the lowest smoking rates in nation. Needless to say this is one our state's public health success.

In closing, we would mention that we believe that this is a good bill. It accomplishes several purposes. It is a sin tax that could generate substantial revenues thus helping our state's fiscal crisis. It will provide additional funding for our state's "health safety net" community health centers. Finally this bill wouldl deter adult and youth tobacco use, which will in turn drive down not only oral cancer rates but the rates of other cancers related to tobacco use.

Thank you for the opportunity to provide testimony in strong support of this measure.


Very truly yours,



George S. Massengale, JD
Director of Government Relations



COALITION FOR A TOBACCO-FREE HAWAII

To: Senator David Y. Ige, Chair, Committee on Ways and Means
Senator Josh Green, M.D., Vice Chair, Committee on Ways and Means
Members, Senate Committee on Health
From: Trisha Y. Nakamura, Policy and Advocacy Director 
Date: March 13, 2009
Hrg: Senate Committee on Health; March 16, 2009 at 3:00 p.m.
Re: **Strong Support to Increase the Tax on Other Tobacco Products, HB 895, HD 2**

Thank you for this opportunity to provide comments in strong support of an increase on the tax on tobacco products other than cigarettes. 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. The Coalition has long supported increasing taxes on tobacco products as a means to reduce youth consumption of tobacco. This measure directly addresses a growing concern—youth use of smokeless tobacco is increasing. Thank you for considering this measure.

The Coalition supports raising the tax on other tobacco products as well as expanding the definition of “tobacco products” to explicitly include smokeless tobacco. The Coalition recommends that a portion of any new tobacco tax revenue fund tobacco prevention and cessation programs.

Raising the tax on tobacco products is a win-win for our State. A tax increase will not only bring revenue into our State but it will reduce youth tobacco use. HB 895, HD 2 also presents an opportunity for lawmakers to dedicate funds to tobacco prevention and control efforts.

Health is Promoted By Increasing the Tax on Tobacco Products Other Than Cigarettes

By increasing the percent of the wholesale price of each tobacco product sold, use of smokeless tobacco by adults and young people will decrease. This will result in a decline in the serious health conditions that arise from use of smokeless tobacco including cancer of the esophagus pharynx, larynx, stomach, and pancreas, gum disease, and the risk of cardiovascular disease. Adolescents and young adults are two to three times more sensitive to tobacco price changes than adults—less youth will begin to start using smokeless tobacco and more will reduce their consumption. Hawaii has seen an increase in youth use of smokeless tobacco despite our decreasing smoking rates. This is a concern because children and adolescents who use smokeless tobacco, especially if they are male, are at an increased risk to become cigarette smokers.

Rates of Smokeless Tobacco Use in 2003, 2005 and 2007

	2003	2005	2007
High School students	2.8%	2.1%	3.7%
Middle School students	1.7%	1.8%	2.8%

(Hawaii State Department of Health, Data Highlights from the 2007 Hawaii Youth Tobacco Survey (YTS) and Comparisons with Prior Years. September 2008)

Significant Revenues Can Be Generated from an Increase in the Tax on Other Tobacco Products

The chart on the next page shows rough estimates of how much revenue our State may see if the tax on other tobacco products is increased. The figures are based on two averages: the five-year and the ten-year averages of taxes on other tobacco products as viewed at the Department of Taxation’s website.

Revenue Projections for Tax on Other Tobacco Products

Revenue Projections	Based on 5-Year Average	Based on 10-Year Average
60% of purchase price (20% increase fr current rate)	\$3,826,354.45	\$3,322,278.00
70% of purchase price (30% increase fr current rate)	\$4,145,217.32	\$3,599,134.50
80% of purchase price (40% increase fr current rate)	\$4,464,080.19	\$3,875,991.00
90% of purchase price (50% increase fr current rate)	\$4,782,943.06	\$4,152,847.50
100% of purchase price (60% increase fr current rate)	\$5,101,805.93	\$4,429,704.00

Other Tobacco Products Must Be Taxed at Rates Comparable to Cigarettes

The Coalition offers that an increase in the tax on tobacco products other than cigarettes will decrease the use of smokeless tobacco. We caution that the tax increase must be comparable to that of cigarettes. When the tax on cigarettes increased, an increase in the use of smokeless tobacco rose among our youth as noted above. Nationally, there is a growing trend in pipe-smoking among college youth. The president of the Cigar Association of America noted national sales in pipe tobacco climbed to 5.3 million pounds in 2008 (from 4.9 million in 2006).

The Tax Must be Based on Purchase Price; Weight-Based Taxes Reduce Revenue

The best way to tax smokeless tobacco is with a percentage-of-price tax. Emerging smokeless tobacco products like Camel Snus (mini pouches of tobacco) weigh as little as one-tenth per dose compared to the standard moist snuff that comes in a can. Percentage-of-price taxes treat all other tobacco products the same and automatically increase with inflation rates protecting the tax revenue from being eroded *over time*.

Altria, the parent company of United States Smokeless Tobacco Company and Philip Morris, advocates for weight-based taxes on other tobacco products—it reduces the tax rates on their higher-priced premium products that are often the most popular, including Copenhagen and Skoal. Altria's products become more affordable than its competitor's products that have lower purchase prices. The most popular brands remain the most popular; however, the State is collecting less revenue from them compared to a percentage-of-price tax. Often, the tobacco companies will argue that a weight-based proposal will bring in more revenue in the next few years; however, a fixed weight-based system will erode over time as inflation and product prices increase, providing less state revenue.

Revenues Should Be Directed to Fund Tobacco Prevention and Control

At a time when there are threats to fund tobacco prevention and control, the Coalition would like to see all, if not a portion of the revenues from the increase in the tax on other tobacco products dedicated to tobacco prevention and control. This will ensure that the comprehensive tobacco prevention and control work in Hawaii continues. Those who want help in quitting tobacco should have the services to help them. 88% of smokers want to quit someday; 61% have tried to quit in the past year. The revenues collected from tobacco should support services for them. We must fund tobacco prevention and control.

Thank you for the opportunity to provide comments in support of this measure. The Coalition strongly encourages you to pass this measure out of Committee.

March 13, 2009

TO: Chair David Y. Ige and Members of the Committee on Health

FROM: Cigar Association of America, Inc.
(William L. Goo)

RE: **HB 895, HD2** - Relating to Tax on Tobacco Products Other Than Cigarettes

Hearing Date: Monday, March 16, 2009 at 3:00 p.m.

My name is William Goo. I represent Cigar Association of America, Inc. (CAA).

CAA respectfully **opposes** passage of **HB 895, HD2** for the following reasons:

Other tobacco product (OTP) users are already taxed at a high rate (40%) and will be required to pay even more to purchase tobacco products as a result of the passage of the SCHIP bill by Congress. The SCHIP legislation increases the tax on large cigars from approximately 21% with a cap of \$.05 to approximately 53% with a cap of \$.40 per cigar and on little cigars from \$.37 a pack to a little over \$1.00 a pack. The Hawaii excise tax rate of 40% on OTP is based on the wholesale price of a tobacco product. Inclusive in the wholesale price is the federal tax. Hawaii's excise tax is an ad valorem tax, and an increase in the base price of the product would automatically result in an increase in the tax amount and additional revenue. Notwithstanding the fact that the 40% tax rate has been in effect since 1965, the revenue generated by the tax has increased over the years as the wholesale price of a tobacco product increased.

Increasing the amount of the tax would not necessarily deter the use of other tobacco products. OTP users have the option of resorting to less expensive means to purchase tobacco products which may result in a decrease in tax revenue notwithstanding any rate increase.

It is respectfully requested that the Committee hold this measure. Thank you for considering this testimony.