

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TOBACCO, Tax on other tobacco products

BILL NUMBER: SB 2422, SD-1

INTRODUCED BY: Senate Committee on Health

BRIEF SUMMARY: Amends HRS section 245-3 to provide that the tax on tobacco products other than large cigars shall be the greater of 70% of its wholesale price or \$3.20 effective September 30, 2012.

EFFECTIVE DATE: January 1, 2050

STAFF COMMENTS: The proposed measure provides that the tax on tobacco products other than large cigars shall be the greater of 70% of its wholesale price or \$3.20. It should be noted that when Act 58, SLH 2009, was approved by the legislature, it changed the way other tobacco products are taxed and increased the rate of the ad valorem tax on other tobacco products other than cigars to 70% of the wholesale value and imposed an ad valorem tax equal to 50% of the wholesale value on cigars that had a "ring gauge" of more than 30 (approximately a half inch circumference). In the latter case, those cigars of less than that ring gauge, known as "little cigars," were thrown into the same rate schedule as cigarettes.

However, 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, lawmakers should consider restructuring the way other tobacco products are taxed to insure stability in the collections 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. If the tax was based on the weight of the product, the larger the package of tobacco products, be it chewing tobacco or pipe tobacco, the more the tax would be. Thus, three ounces of pipe tobacco, no matter what the value of the product, would be taxed like another container of three ounces of pipe tobacco. Similarly, cigars that are fatter and, therefore, weigh more than say, cigarillos, which are thinner, would be taxed according to the overall weight of the product. As a result, when the cost of the product rises, and the behavioral reaction

to trade down to a less costly product sets in, the amount of tax the state receives will be the same, thus stabilizing the collections from this source. Under this proposal, a lesser value product may be taxed at the same absolute dollar amount as a more expensive valued product because of the flat dollar floor of \$3.20 per product. The example would be a tobacco product that has a wholesale value of \$2.00 and would be taxed at \$3.20 as \$3.20 is greater than the 70% of wholesale value of \$1.40, while a tobacco product that has a wholesale value of \$4.57 would also be taxed at \$3.20 (70% of \$4.57). While the overall price of the two products would still favor the cheaper product, the amount of tax imposed is inequitable. Therefore, using a unit measurement as opposed to value would insure that two products with the same amount of tobacco quantity by weight, would be imposed with the same amount of tax per 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.

Digested 2/22/12



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March 15, 2012

House Committee on Health
Representative Ryan Yamane, Chair
Representative Dee Morikawa, Vice Chair
State Capitol Room 329
March 16, 2012, 9:30 a.m.

SB 2422, SD1 - Relating to Tobacco Products

Thank you for the opportunity to provide testimony in support of SB 2422, SD1, which imposes an excise tax on tobacco products, other than large cigars, that is equal to the greater of 70% of the wholesale price or \$3.20 for each article or item of tobacco products.

This measure increases the tax on other tobacco products to bring that tax in line with the tax on cigarettes. Raising tobacco taxes reduces tobacco use, reduces death and disease from tobacco, reduces the health care costs associated with tobacco, and raises new revenue for the State.

Studies have shown that strong tobacco taxes reduce consumption. Low-income populations are four times more likely to quit smoking in response to cigarette price increases.¹ Because these particular populations bear a disproportionate burden of death and disease caused by tobacco, they would obtain substantial health benefits from quitting.² Further, low-income and minority youth are less likely to start smoking as a result of a cigarette price increase than other youth populations.

Smoking remains one of the leading causes of cancer and health related problems in the United States. Thank you for allowing us the opportunity to provide testimony on this measure.

Sincerely,

A handwritten signature in black ink that reads "Cory Chun".

Cory Chun
Government Relations Director

¹ See Centers for Disease Control and Prevention. Responses to Increases in Cigarette Prices by Race/Ethnicity, Income, and Age Groups—United States, 1976-1993. MMWR. 1998;47:605-609.

² See Centers for Disease Control and Prevention. State Medicaid Coverage for Tobacco Dependence Treatments—United States, 1998 and 2000. MMWR 2001;50(44):979-982.



COALITION FOR A
TOBACCO-FREE HAWAII

To: The Honorable Ryan Yamane, Chair, Committee on Health
The Honorable Dee Morikawa, Vice Chair, Committee on Health
Members, House Committee on Health
From: Deborah Zysman, MPH, Executive Director
Hrg: Committee on Health; March 16, 2012 at 9:30 am; Rm 329
Re: **Strong Support for SB 2422, SD1 Relating to Tobacco Products**

The Coalition for a Tobacco-Free Hawaii is in strong support of SB 2422, SD1 which provides for parity between taxes on cigarettes and most other tobacco products by setting a minimum tax on other tobacco products that comparable to cigarettes, and an earmark for tobacco prevention efforts. Please also note our recommendations to add clarity in the proposed tax structure.

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

By increasing the cost of each tobacco product sold and making it comparable to cigarettes, tobacco use 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, and a decrease in the diseases caused by smoking roll-your-own tobacco.

Adolescents and young adults are two to three times more sensitive to tobacco price changes than adults—when price increases, less youth will begin to start using smokeless tobacco and other tobacco products and more will reduce their consumption. Hawaii has seen youth use of smokeless tobacco fluctuate despite our decreasing smoking rates.

Parity in Taxes on Cigarettes & Other Tobacco Products Through a Flat Tax Is Imperative

The Coalition supports efforts to set a minimum tax on other tobacco products that is comparable to the tax on cigarettes. By creating parity, consumers will be more inclined to reduce tobacco use. We urge this Committee to ensure other tobacco products are not more “price-friendly” than cigarettes. This will encourage more tobacco users to quit and keep more youth from starting.

By setting a minimum tax per article, the amount consumers have to pay for other tobacco products is comparable to cigarettes, regardless of the cost of the item or weight itself; discouraging new tobacco users from purchasing. Setting a minimum tax per article works more effectively than weight-based taxes, which the tobacco industry can work around by adjusting



COALITION FOR A
TOBACCO-FREE HAWAII

the weight of its products. There are a number of emerging other tobacco products that would best be covered by a minimum tax comparable to cigarettes. These products are very light and range in manufacture and design—from spitless pouches, to sticks or pellets of tobacco. We urge you to maintain a minimum tax per article that is comparable to cigarettes.

The Coalition does suggest that the language in the bill be changed from “\$3.20” (the current tax on 20 cigarettes) to “the tax for twenty cigarettes” to ensure that when the cigarette tax rises the other tobacco tax will also rise and maintain parity.

A Portion of the Revenues Must Be Earmarked for Tobacco Prevention and Treatment

Hawaii residents overwhelmingly agree (89 percent in our last poll) that it’s important for the state to earmark some of the revenue to fund tobacco prevention and quit smoking programs. When the price of tobacco increases, more seek help to quit. It’s necessary we have community resources including the Quitline, the American Lung Association, and services at community health centers to help tobacco users address their nicotine addiction. We ask that you earmark a portion of these new funds to tobacco prevention and tobacco dependence treatment services.

The Coalition requests your consideration of the recommended changes and your support of creating parity between other tobacco products and cigarettes. Thank you for the opportunity to provide comments in support of this measure.

Deborah Zysman, MPH
Executive Director

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 provides leadership for the tobacco control community, develops networks, and helps coordinate tobacco control programs and builds community awareness.

March 14, 2012

TO: Chair Ryan Yamane and Members of the House Committee on Health

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

RE: **SB 2422, SD1** - Relating to Tobacco Products
Hearing Date: Friday, March 16, 2012 at 9:30 a.m.

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

CAA respectfully opposes passage of **SB 2422, SD1**. This bill would impact all users of tobacco products such as moist snuff, smokeless and pipe tobacco, but is directed at adolescents and young adults. These kinds of tobacco products are not typically favored or used by adolescents and young adults in Hawaii. Hence, increasing the tax on these products would not necessarily be a deterrent to their use. The imposition of a higher tax will negatively impact retail sales of these products locally. It will inevitably lead to users seeking alternative and less expensive means to purchase tobacco products which will consequently result in a decrease in tax revenue notwithstanding any proposed increase brought about by a change in how such a tax is imposed.

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

HOUSE OF REPRESENTATIVES
THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2012

COMMITTEE ON HEALTH
Rep. Ryan I. Yamane, Chair
Rep. Dee Morikawa, Vice Chair

Rep. Della Au Belatti	Rep. John M. Mizuno
Rep. Faye P. Hanohano	Rep. Jessica Wooley
Rep. Jo Jordan	Rep. Corinne W.L. Ching
Rep. Chris Lee	Rep. Kymberly Marcos Pine

NOTICE OF HEARING

DATE: Friday, March 16, 2012
TIME: 9:30 a.m.
PLACE: Conference Room 329
State Capitol
415 South Beretania Street

Testimony in Strong Opposition to SB2422
Submitted by Michael Zehner
Organization: Hawaii Smokers Alliance

Hawaii Smokers Alliance strongly opposes this regressive tax increase that is yet another bigoted attack on our people by the paid few of the professional anti-smoking lobby. Along with our already unfair tobacco taxes, it is based on the falsehood that smokers cost society more in health care costs. This agenda driven claim by the anti-smoking lobby is false because it fails to look at the big picture of lifetime health care costs as the following study funded by the Netherlands Ministry of Health shows.

Thank you for the opportunity to testify,

Michael Zehner, Hawaii Smokers Alliance

Outcome Measure	Disease Group	Obese Cohort	"Healthy-Living" Cohort	Smoking Cohort
Remaining life expectancy (years) at age 20	—	59.9	64.4	57.4
Expected remaining lifetime health-care costs (× €1,000) at age 20	—	250	281	220
Expected remaining lifetime health-care costs (× €1,000) per person at age 20 specified by disease group	Coronary heart disease	14	12	14
	Stroke	11	13	12
	Chronic obstructive pulmonary disease	1	1	5
	Diabetes	9	2	2
	Musculoskeletal diseases	15	12	8
	Lung cancer	0	0	3
	Other cancers	5	5	5
	Costs of other diseases	195	236	172

doi:10.1371/journal.pmed.0050029.t001

Pieter H. M. van Baal^{1*}, Johan J. Polder^{2,3}, G. Ardine de Wit¹, Rudolf T. Hoogenveen¹, Talitha L. Feenstra¹, Hendriek C. Boshuizen¹, Peter M. Engelfriet¹, Werner B. F. Brouwer⁴

1 National Institute for Public Health and the Environment (RIVM), Centre for Prevention and Health Services Research, Bilthoven, The Netherlands, **2** National Institute for Public Health and the Environment, Centre for Public Health Forecasting, Bilthoven, The Netherlands, **3** Tilburg University, Department Tranzo, Tilburg, The Netherlands, **4** Erasmus University, Medical Center, Rotterdam, The Netherlands

Funding: This work was funded by the Dutch Ministry of Health.

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 14, 2012 4:27 PM
To: HLTtestimony
Cc: tinamoore@linuxmail.org
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Tina
Organization: Individual
E-mail: tinamoore@linuxmail.org
Submitted on: 3/14/2012

Comments:

How about a tax CUT instead? What's wrong with you guys at the state house. Life is hard enough in this screwed up economy as it is. In 2006 you passed the smoking ban and turned away tourism and now you want me to pay more taxes. WTF!!!!

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 14, 2012 7:33 PM
To: HLTtestimony
Cc: konaking@live.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: Yes
Submitted by: Jeff Stevens
Organization: Individual
E-mail: konaking@live.com
Submitted on: 3/14/2012

Comments:

A big tax increase? If the legislature is joking - IT'S NOT FUNNY!!!!!!

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 14, 2012 7:29 PM
To: HLTtestimony
Cc: susanlarson78@gmx.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Susan Larson
Organization: Individual
E-mail: susanlarson78@gmx.com
Submitted on: 3/14/2012

Comments:
Stop ripping off people who smoke. I can't wait for election day.

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 14, 2012 8:30 PM
To: HLTtestimony
Cc: jjw333333@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: Yes
Submitted by: Jake J. Watkins
Organization: Individual
E-mail: jjw333333@gmail.com
Submitted on: 3/14/2012

Comments:

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 14, 2012 8:04 PM
To: HLTtestimony
Cc: dustinandrewsoahu@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Dustin Andrews
Organization: Individual
E-mail: dustinandrewsoahu@gmail.com
Submitted on: 3/14/2012

Comments:
I work hard for my money! Stop stealing it!

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 14, 2012 8:40 PM
To: HLTtestimony
Cc: surfmaster008@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Sean Higa
Organization: Individual
E-mail: surfmaster008@gmail.com
Submitted on: 3/14/2012

Comments:

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 15, 2012 8:07 AM
To: HLTtestimony
Cc: mikenakas@hotmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Michael S. Nakasone
Organization: Individual
E-mail: mikenakas@hotmail.com
Submitted on: 3/15/2012

Comments:

Please vote no to this tax attack on the working man! Why can't you raise taxes on the rich instead of the common man?
Mahalo, Michael Nakasone

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 15, 2012 10:04 AM
To: HLTtestimony
Cc: ryan.oswald@aol.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Ryan Oswald
Organization: Individual
E-mail: ryan.oswald@aol.com
Submitted on: 3/15/2012

Comments:

Was Roz Baker huffing paint when she introduced this?

If you hate smoking Baker, then don't smoke. It's that simple for most people, people that still have most of their brain cells still functioning and a little tolerance for others.

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 15, 2012 12:09 PM
To: HLTtestimony
Cc: CathyTsauro@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: James Tsauro
Organization: Individual
E-mail: CathyTsauro@gmail.com
Submitted on: 3/15/2012

Comments:

I, James Tsauro am strongly opposed to raising the tobacco tax. To use or not use tobacco is an individual choice. The government should not be trying to influence this choice by raising taxes again. If taxes are raised again, Hawaii will have one of, if not the highest rates in the nation. The state's deficit should not be placed solely on the shoulders of tobacco users, when the state already receives millions of dollars from the tobacco settlement. The state should be fiscally responsible without relying on tobacco users. Thank you.

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 15, 2012 12:08 PM
To: HLTtestimony
Cc: CathyTsaaur@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Nancy Tsaaur
Organization: Individual
E-mail: CathyTsaaur@gmail.com
Submitted on: 3/15/2012

Comments:

My name is Nancy Tsaaur and I am in strong opposition to increasing the tobacco tax, again. Hawaii has the 4th highest tobacco tax rate in the nation. 65% of the price of a tax of cigarettes in Hawaii goes to taxes and other government fees. The State cannot continue to look at smokers as cash cows. It is not right for the State to single out a single industry or group of people. Thank you for your attention

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 15, 2012 12:07 PM
To: HLTtestimony
Cc: CathyTsaaur@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Catherine Tsaaur
Organization: Individual
E-mail: CathyTsaaur@gmail.com
Submitted on: 3/15/2012

Comments:

My name is Catherine Tsaaur, and I strongly oppose an increase of tobacco taxes. The state already greatly benefits from millions of dollars the current tax rate already brings in. \$3.20 per pack of cigarettes already goes to the state. The government cannot keep taxing the same group of people, claiming it's for their own good. In this day and age, everyone already knows the dangers of smoking and do so at their own risk. This is about increasing the state's income to try and reduce the deficit. Hawaii has raised this tax 11 times in the last 14 years. Let's be innovative and look for new revenue sources, such as the Amazon Tax or gambling. Thank you.

morikawa2 - Grant

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 15, 2012 12:06 PM
To: HLTtestimony
Cc: corietanida@gmail.com
Subject: Testimony for SB2422 on 3/16/2012 9:30:00 AM

Testimony for HLT 3/16/2012 9:30:00 AM SB2422

Conference room: 329
Testifier position: Oppose
Testifier will be present: No
Submitted by: Corie Tanida
Organization: Individual
E-mail: corietanida@gmail.com
Submitted on: 3/15/2012

Comments:

I, Corie Tanida, strongly oppose SB2422. The state has raised taxes on tobacco consistently over past years. When will tobacco users stop being targeted as "cash cows"? This persecution will not end the state's deficit. Legislators should be looking at new income sources, such as the Amazon tax, rather than claiming increasing taxes are for our health. Thank you.