



STATE OF HAWAII
DEPARTMENT OF HEALTH
P.O. Box 3378
HONOLULU, HAWAII 96801-3378

In reply, please refer to:
File:

SENATE COMMITTEE ON HEALTH

SB2422, RELATING TO TOBACCO PRODUCTS

**Testimony of Loretta J. Fuddy, A.C.S.W., M.P.H.
Director of Health**

**February 13, 2012
1:15PM, RM. 229**

1 **Department's Position:** The Department of Health supports this measure to curtail tobacco use. The
2 Department will defer to the Department of Taxation on those matters relating to taxation and revenue
3 generation.

4 **Fiscal Implications:** Potential revenue from the tax to the general fund.

5 **Purpose and Justification:** SB2422 proposes to levy a tax on Other Tobacco Products (OTP) that is
6 commensurate to that of a pack of cigarettes.

7 Smoking and tobacco use are Hawaii's and the nation's leading cause of preventable illness and
8 death resulting in over 1,100 resident deaths annually and costing over \$640 million for health care and
9 lost productivity. Tobacco products not FDA approved to help smokers to quit are addictive and
10 dangerous whether smoked, chewed, or dissolved and are both a significant risk factor for and a cause of
11 cancer, heart disease, diabetes, respiratory diseases, and other serious illnesses.

12 Traditionally, excise taxes on OTP have been significantly lower than those imposed on
13 cigarettes. This factor, combined with the tobacco companies coming out with a large variety of non-
14 combustible products increased consumption of OTP's. The proposal to create a tax rate for OTP's that
15 is on par with that of the rate for cigarettes is a reasonable and appropriate action. Increasing the cost of

1 tobacco products has been shown to decrease consumption, particularly significant increases. For every
2 10 percent increase on price, there is a 3 to 4 percent decrease in consumption. For youth, that figure
3 doubles to approximately a 6 to 8 percent decrease. The DOH would like to offer a suggestion that the
4 language of the bill be amended to reflect that the excise tax be tied to whatever the current dollar figure
5 for cigarettes is rather than fixing the number at the present figure of \$3.20.

6 Thank you for the opportunity to testify on this measure.

7

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COALITION FOR A
TOBACCO-FREE HAWAII

To: The Honorable Josh Green, M.D., Chair
The Honorable Clarence Nishihara, Vice Chair

From: Deborah Zysman, MPH, Executive Director
DM: HTH Cmte; February 13, 2012 at 1:15pm; Rm 229
Re: **Strong Support for SB 2422 Relating to Tobacco Products**

The Coalition for a Tobacco-Free Hawaii is in strong support of SB2422 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 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; such discourages 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 the weight of its products. There are a number of emerging other tobacco products that would



COALITION FOR A
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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

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

INTRODUCED BY: Baker, Chun Oakland and 1 Democrat

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: October 1, 2012

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 2/10/12



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Testimony for SB 2422 "Relating To Tobacco"

The American Heart Association supports the intent of SB 2422, but recommends an amendment to the bill.

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 \$15.4 million per year on tobacco prevention, education and cessation programs to fully achieve success in reducing tobacco dependence. This year, due to recent cuts to those State-funded programs, Hawaii will fall well below that recommendation.

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 "little cigars" or roll-your-own tobacco 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.

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 Government Relations/Mission:Lifeline Director

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

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free of cardiovascular
diseases and stroke."*

Please remember the American Heart Association in your will or estate plan.

February 13, 2012

TO: Chair Josh Green, M.D. and Members of the Senate Committee on Health

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

RE: **SB 2422** - Relating to Tobacco Products
Hearing Date: Monday, February 13, 2012 at 1:15 p.m.

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

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

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

Testimony for HTH 2/13/2012 1:15:00 PM SB2422

Conference room: 229

Testifier position: Oppose

Testifier will be present: Yes

Submitted by: Corie Tanida

Organization: Individual

E-mail: corietanida@gmail.com

Submitted on: 2/11/2012

Comments:

My name is Corie Tanida and I strongly oppose increasing the tobacco tax. This tax has been raised 11 times in the last 14 years and the state already makes millions of dollars from this tax. This is grossly unfair. The well is already dry and legislators should look to new sources of revenue. Thank you.

Green4 - Mailene

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 12, 2012 9:55 AM
To: HTHTestimony
Cc: CathyTsaaur@gmail.com
Subject: Testimony for SB2422 on 2/13/2012 1:15:00 PM

Testimony for HTH 2/13/2012 1:15:00 PM SB2422

Conference room: 229
Testifier position: Oppose
Testifier will be present: No
Submitted by: Catherine Tsaaur
Organization: Individual
E-mail: CathyTsaaur@gmail.com
Submitted on: 2/12/2012

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 gambling. Thank you.

Green4 - Mailene

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 12, 2012 9:56 AM
To: HTHTestimony
Cc: Tsaur@hawaii.edu
Subject: Testimony for SB2422 on 2/13/2012 1:15:00 PM

Testimony for HTH 2/13/2012 1:15:00 PM SB2422

Conference room: 229
Testifier position: Oppose
Testifier will be present: No
Submitted by: Nancy Tsaur
Organization: Individual
E-mail: Tsaur@hawaii.edu
Submitted on: 2/12/2012

Comments:

My name is Nancy Tsaur 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.