

TAXBILLSERVICE

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SUBJECT: TOBACCO, Increase tax

BILL NUMBER: SB 3022

INTRODUCED BY: Green, Chun Oakland and 2 Democrats

BRIEF SUMMARY: Amends HRS section 245-3 to increase the tax on cigarettes or little cigars from 16 cents to ___ cents after 7/1/12.

Amends HRS section 245-15 to provide that ___ cents instead of 1.5 cents per cigarette shall be deposited to the credit of the trauma system special fund and ___ cents instead of 1.25 cents per cigarette shall be deposited to the credit of the community health centers special fund.

EFFECTIVE DATE: July 1, 2012

STAFF COMMENTS: The proposed measure increases the tax on cigarettes and little cigars and changes the amounts distributed to the trauma system special fund and the community health centers special fund.

Care should be exercised in attempting to generate additional revenues from specific excise taxes like the tobacco tax as it should be noted that Hawaii's tax rates on these products are among the highest in the nation. Not only would another rate increase reaffirm the perception that Hawaii is a tax hell, but it would probably have an effect on the patterns of consumption of taxed product. Such a hike will, no doubt, have an effect on behavioral responses and affect actual consumption of these products and it will probable drive consumers to find other sources for these products that would not incur the tax. Mail order and Internet sales are sources of product that could escape taxation as well as black market purchases made from the military reservations in Hawaii. So instead of seeing growing collections from higher tax rates, lawmakers may just find that collections will drop due to its effect to discourage consumption and send consumers to other markets. 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. In fact, as was evidenced in the states of New Jersey and Maryland, lawmakers there counted on an increase in the cigarette tax 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 products for specific programs or services.

For this very reason, earmarking a portion of the tax for a specific project or program, in this case the trauma system special fund, could actually put the future operations of the center in jeopardy should smoking cessation efforts be successful over time. Should cigarette consumption decline, the amount earmarked for the trauma center will also decline. What will the trauma center then do if the resources are not sufficient to maintain operations?

Digested 2/10/12

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Testimony In Support of SB 3022 with suggested amendment

The American Heart Association (AHA) of Hawaii supports SB 3022 and recommends that legislators consider increasing the amount of the proposed tax increase to 21-cents per cigarette or small cigar. 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. The AHA also strongly recommends that a portion of the increased revenue be earmarked to support State-funded tobacco prevention, education and cessation programs.

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, between 1998 to 2002 the cigarette companies increased the prices they charged 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 had no problem with levying new charges on low-income smokers when it increased their own profits. They only oppose the new charges when someone else (like a state government) gets the new revenues, instead. In fact, when the federal government implemented a new increase on cigarette taxes the cigarette companies wasted no time immediately after the law passed hiking the prices on their products to profiteer on the increase during the interim period between passage of the law and its implementation.

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 almost \$58 million per year to pay for smoking-caused Medicaid healthcare costs alone in Hawaii. Smoking-caused health costs and productivity costs to Hawaii combined total \$656 million annually. Hawaii's estimated tobacco tax revenue, estimated to be \$136.5 million does not come close to offsetting the losses to the state caused by tobacco use. Smoking declines caused by state cigarette tax increases directly reduce these smoking-caused tax burdens for all taxpayers.

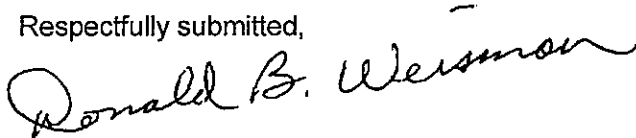
While tobacco tax increases that raise cigarette prices prevent and reduce smoking among all income groups, they work most powerfully to prompt lower-income smokers to quit or cutback and to stop lower-income kids from every starting. As a result, low-income families and communities will not be the victims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

The cigarette companies' argument that cigarette taxes are regressive 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 86 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 – 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)
- 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.
- 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.
- The tobacco companies and their front groups will argue that too steep an increase in cigarette prices could negatively impact tax revenue to the state. What they fail to acknowledge is that those who might quit smoking as a result of a tax increase would then have additional money to spend on taxable products that don't result in over a \$600 million in costs to the state. The money doesn't go up in smoke; instead it will likely be spent on more productive things that can benefit our families and our state. Over 5 years, there will be large health savings through fewer smoking-affected pregnancies and births, and from adult and youth smoking declines.
- 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. Polling in Hawaii reveals similar results. Moreover, 91 percent agree that it is important for the state to dedicate some of the revenue from new tobacco taxes to fund tobacco prevention and quit smoking programs.

The American Heart Association of Hawaii strongly urges you to support SB 3022 with amendments to increase the tax amount to 21-cents per pack, and to use the increased tax revenue to increase funding to tobacco prevention and control programs in our state.

Respectfully submitted,

A handwritten signature in cursive script that reads "Donald B. Weisman". The signature is written in black ink and is positioned above the printed name.

Donald B. Weisman
Hawaii Government Relations/Mission:Lifeline Director