

New Smokeless Tobacco Products and Taxes

Jodi L. Radke

Campaign for Tobacco-Free Kids
Director, Rocky Mountain/Great Plains &
Michigan



Discrepancy in Tax - MI

Michigan

***Cigarette tax Rate - \$2.00 (87.7% of Manufacturer Price)**

***Snuff Tax – 32% of wholesale price**

***Chewing and Smoking Tobacco Tax – 32% of wholesale price**

***Cigar Tax – 32% of wholesale price**

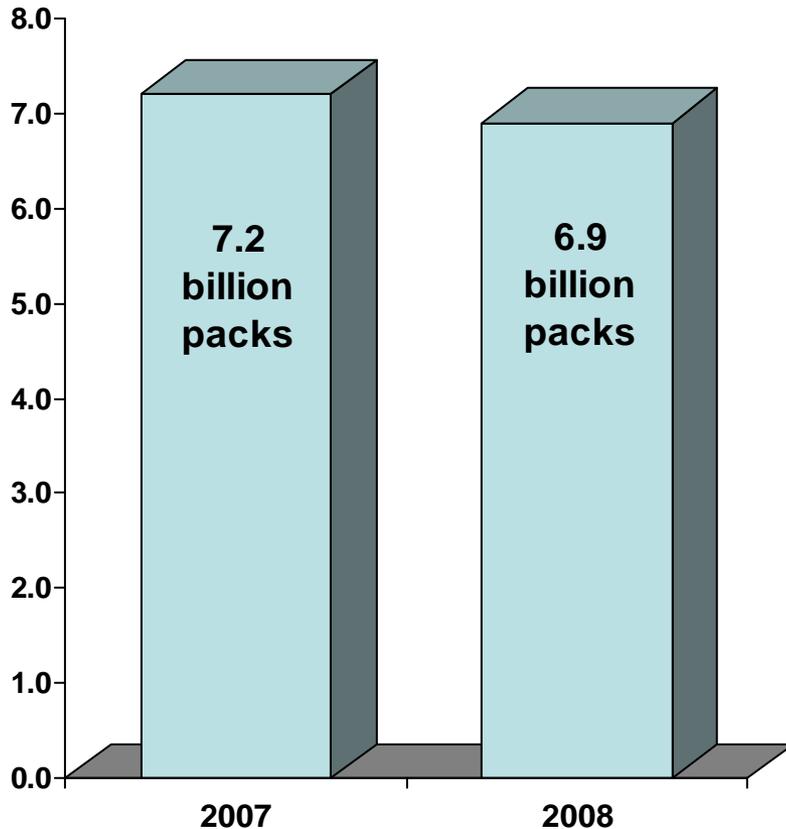
****Date OTP tax last changed – 7/1/2004***



National Cigarette vs. Snuff Tobacco Sales, 2007-2008

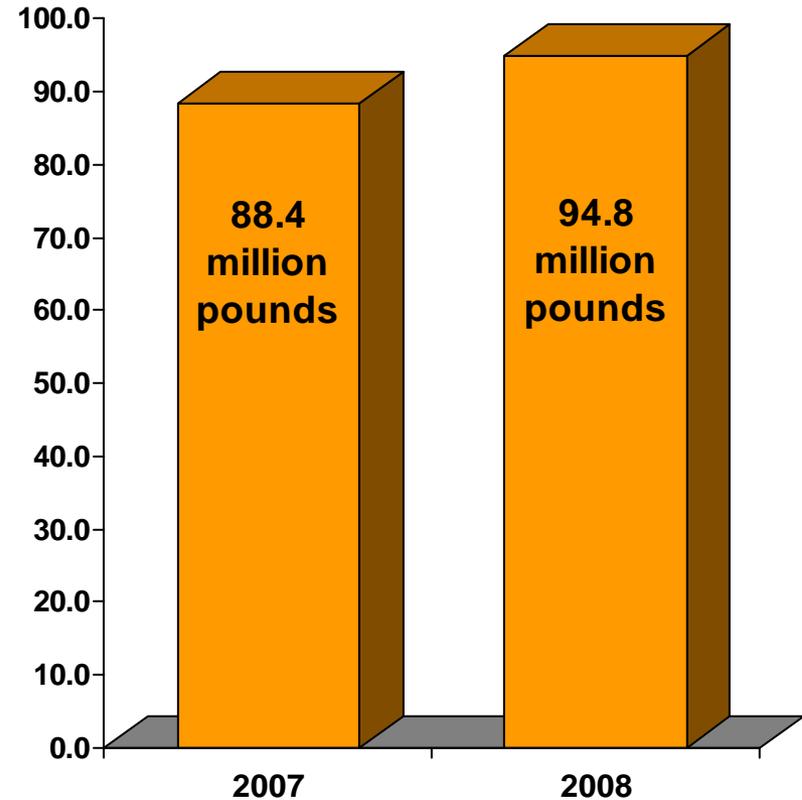
Taxed Cigarette Sales

- 4.2%



Taxed Snuff Sales

+ 7.3%

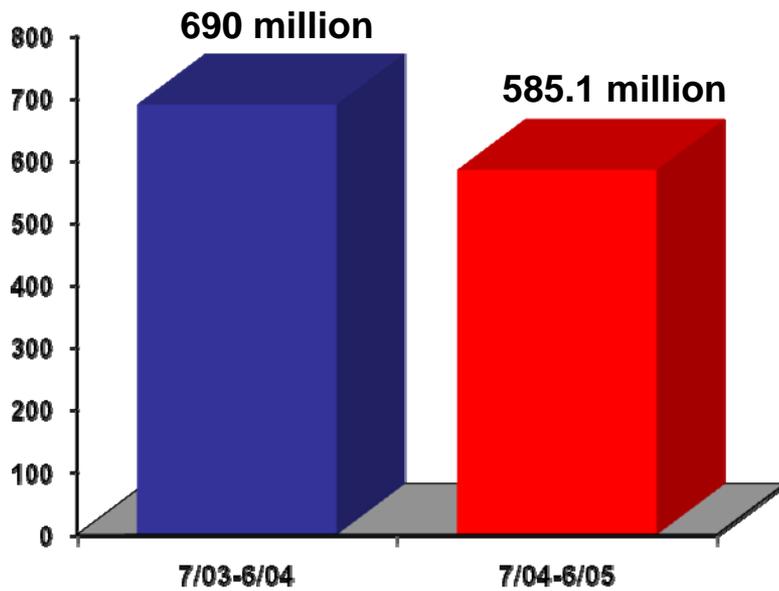


The Michigan Tax Experience

From \$1.25 to \$2.00 on 7/1/04

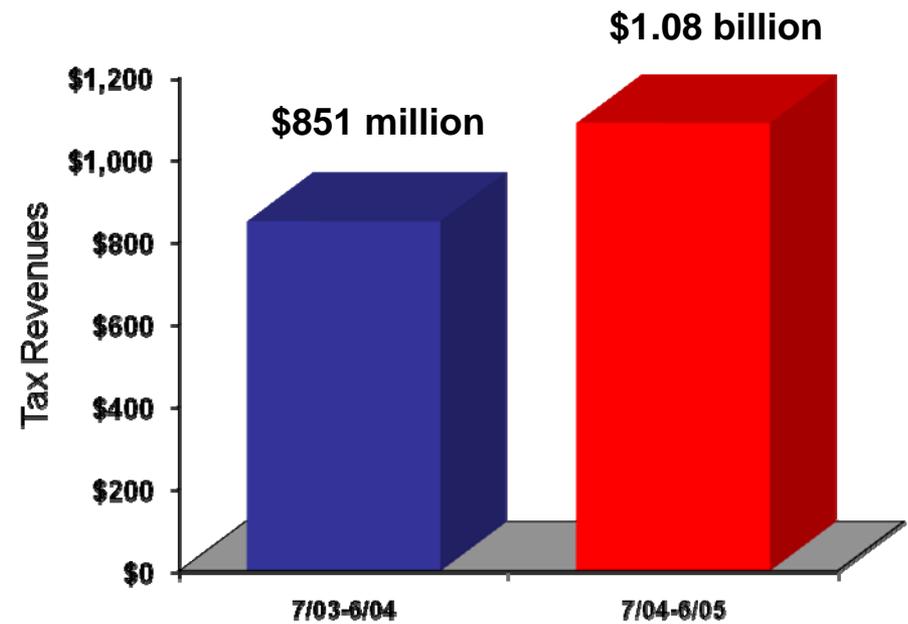
Packs Sold

-15.2%



Revenues Collected

+28.0%

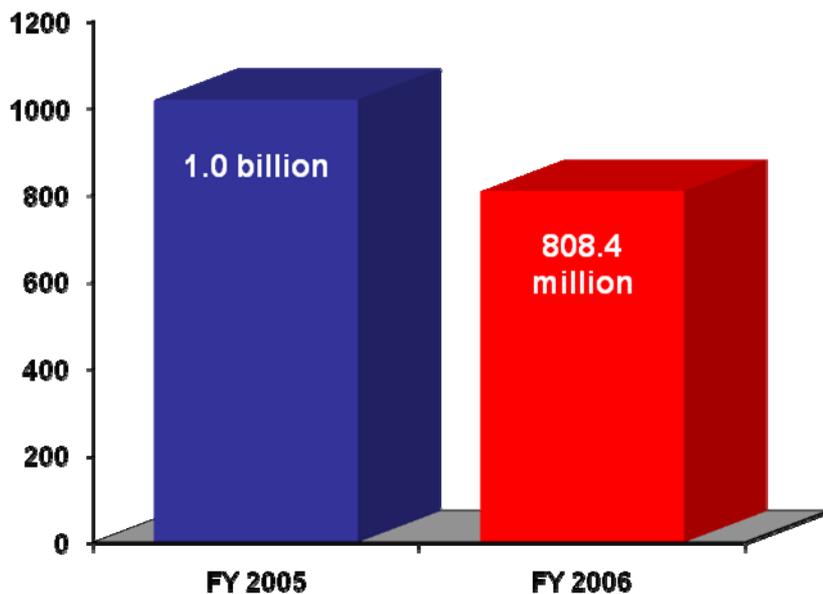


The Ohio Tax Experience

From 55¢ to \$1.25 on 7/1/05

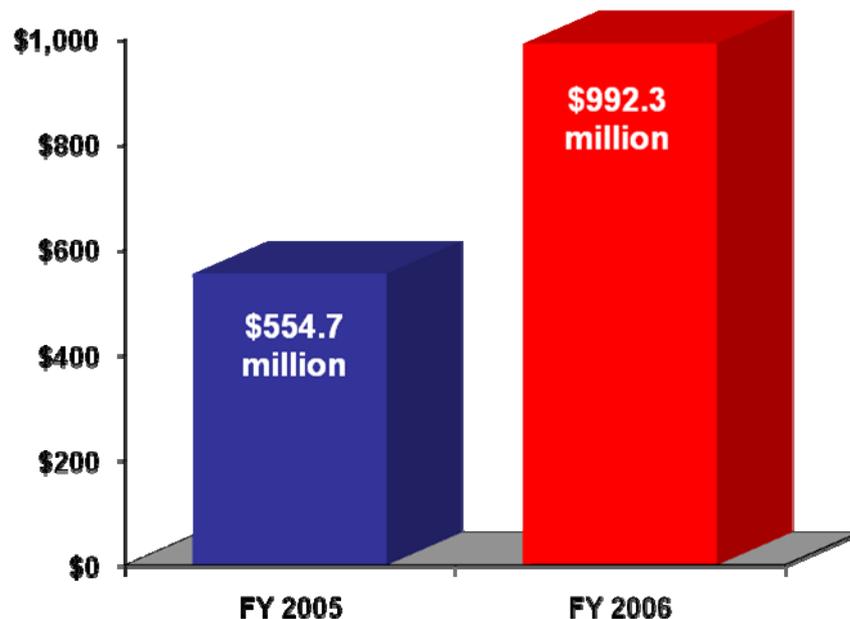
Packs Sold

- 20.6%



Revenues Collected

+ 78.9%

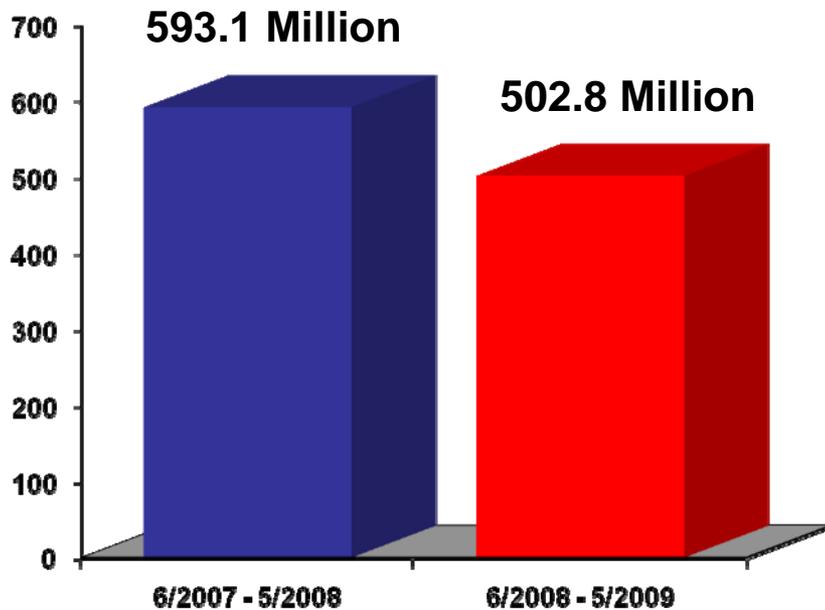


The New York Tax Experience

From \$1.50 to \$2.75 on 6/3/08

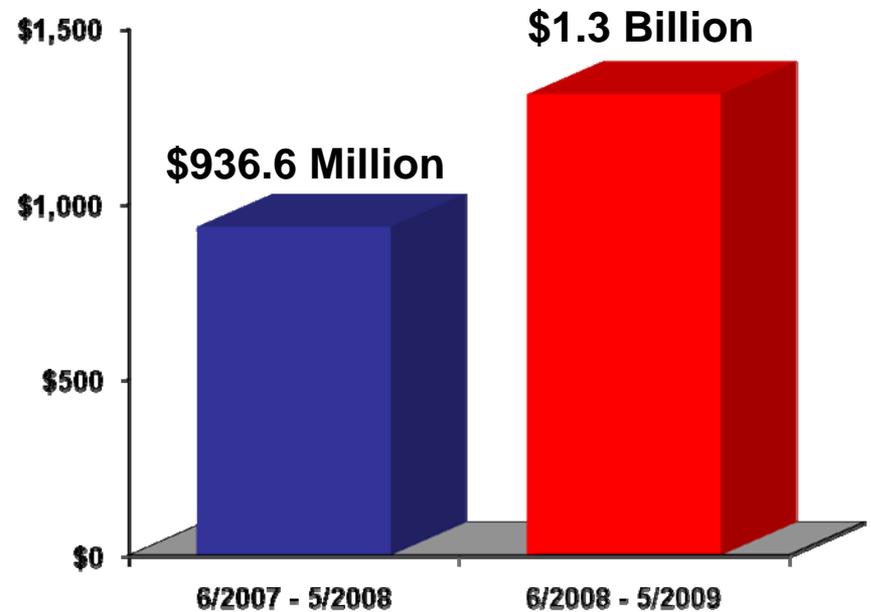
Packs Sold

- 15.2%



Revenues Collected

+ 40.3%

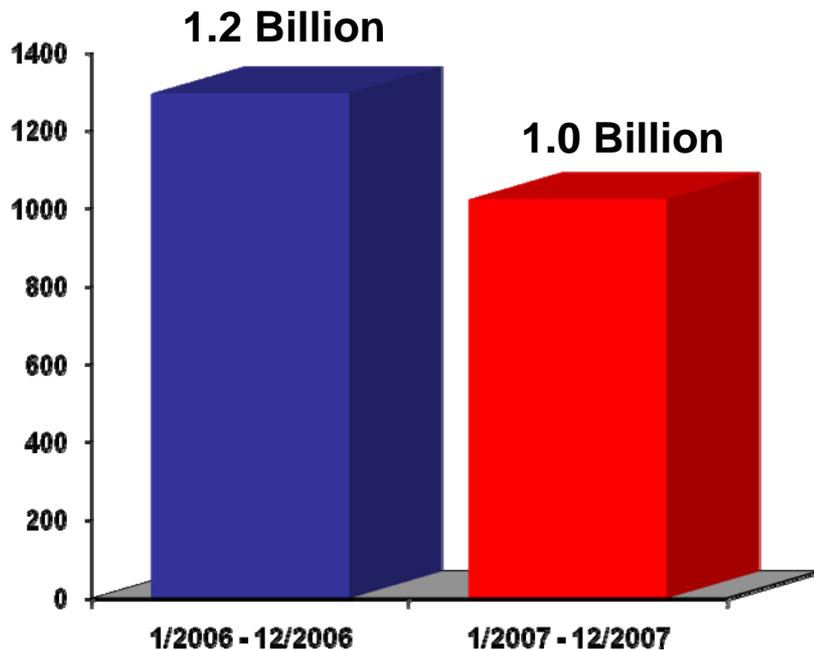


The Texas Tax Experience

From \$0.41 to \$1.41 on 1/1/07

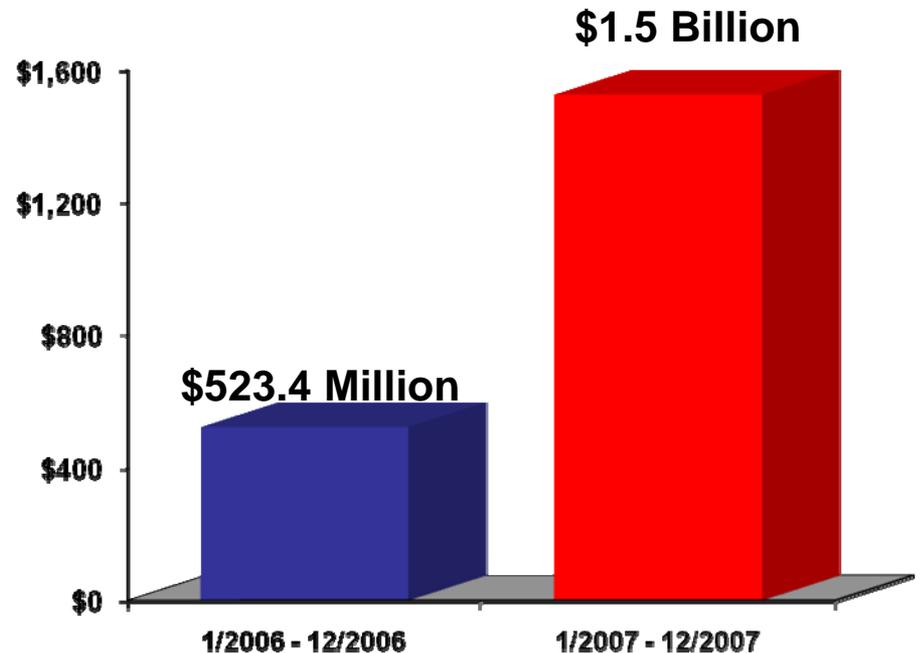
Packs Sold

- 21.0%



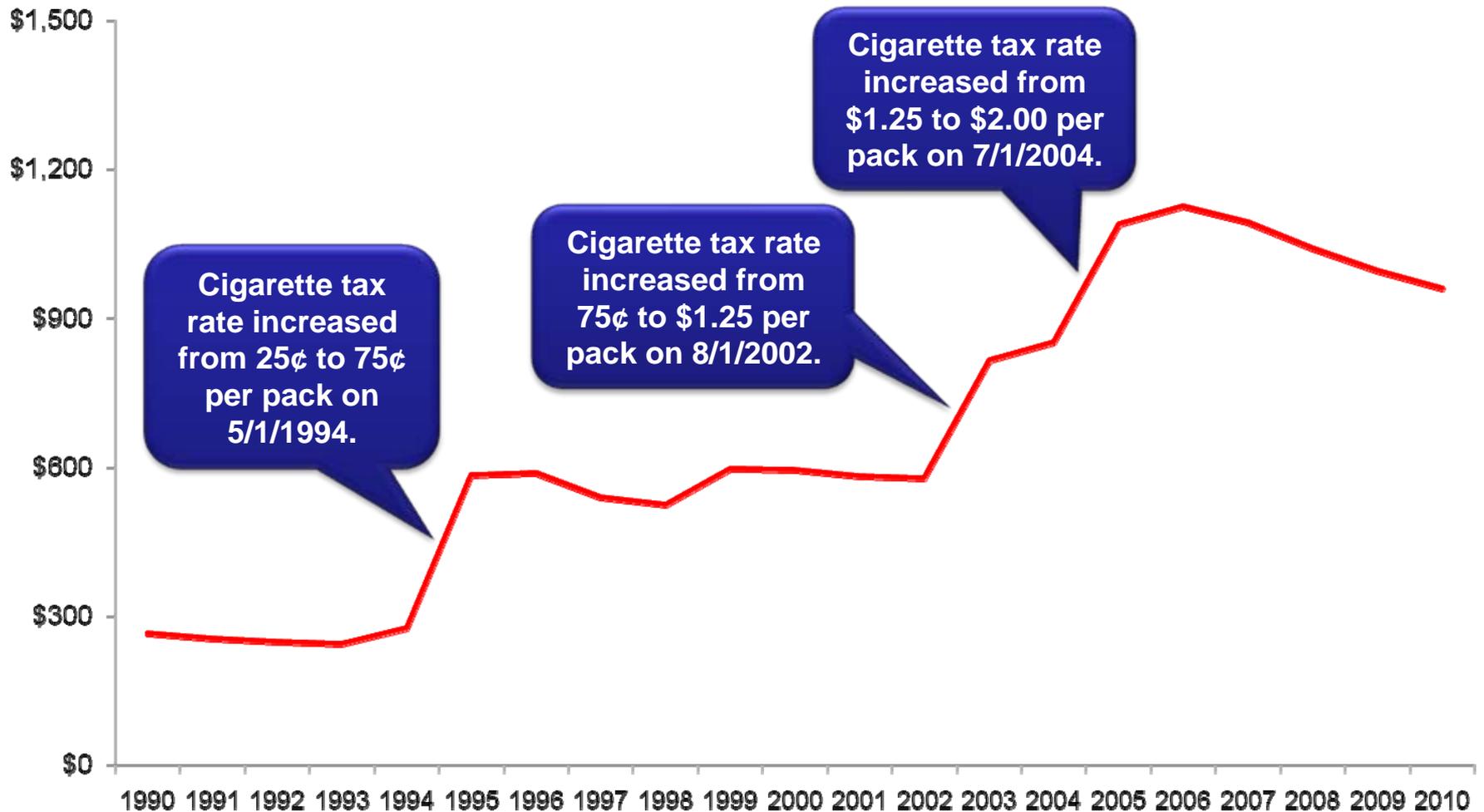
Revenues Collected

+ 191.7%



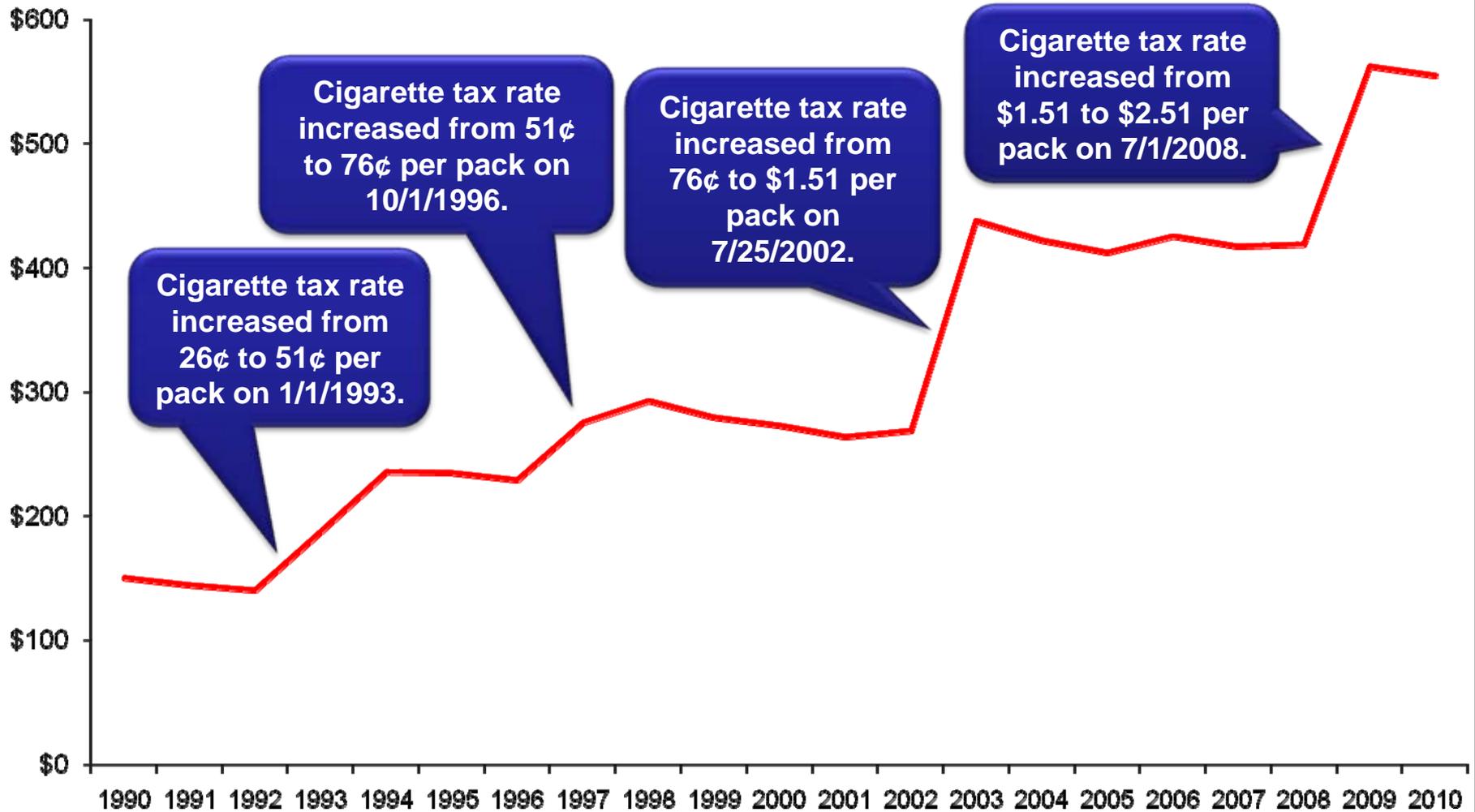
Cigarette Tax Revenues in Michigan, FY 1990-FY 2010

(in millions)



Cigarette Tax Revenues in Massachusetts, FY 1990-FY 2010

(in millions)



Why Tax So-Called “Little Cigars” at the Same Rate as Cigarettes?



Which ones are cigarettes and which ones are “small cigars”?



Why Use a Percentage-of-Price Tax with a Minimum Tax for Smokeless Tobacco?



Camel Snus
1 tin (15 pouches) = 0.32 oz.



Traditional Moist Snuff Smokeless
1 tin = 1.2 to 1.5 oz.



UST Skoal Pouches
1 tin (20 pouches) = 0.82 oz



Stonewall Hard Snuff
1 box of 20 "Pieces" = 0.335 oz.

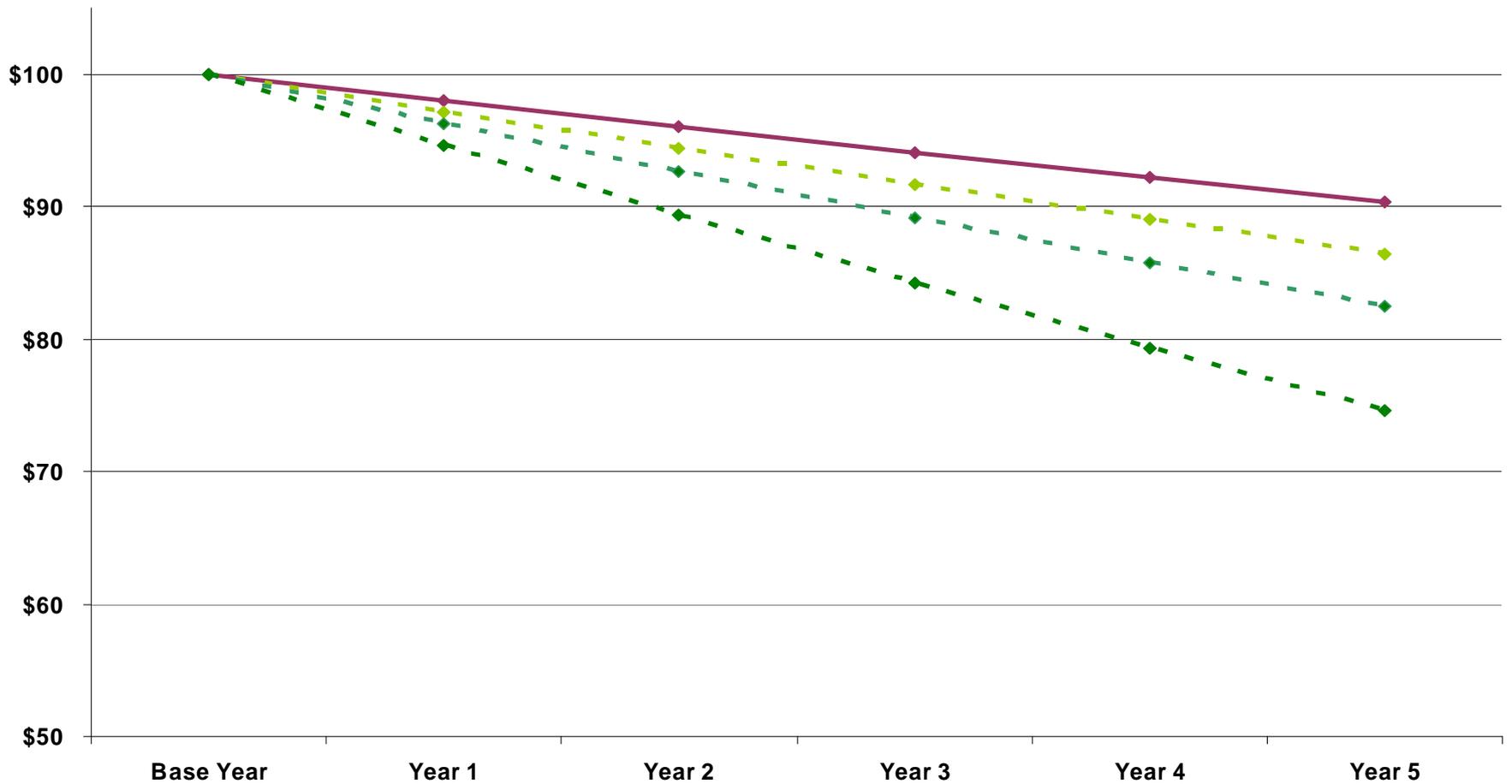


Marlboro Snus
1 "foil pack" (6 pouches) = 0.1 oz.



Camel Orbs
1 box of 15 "Pieces" = 0.12 oz.

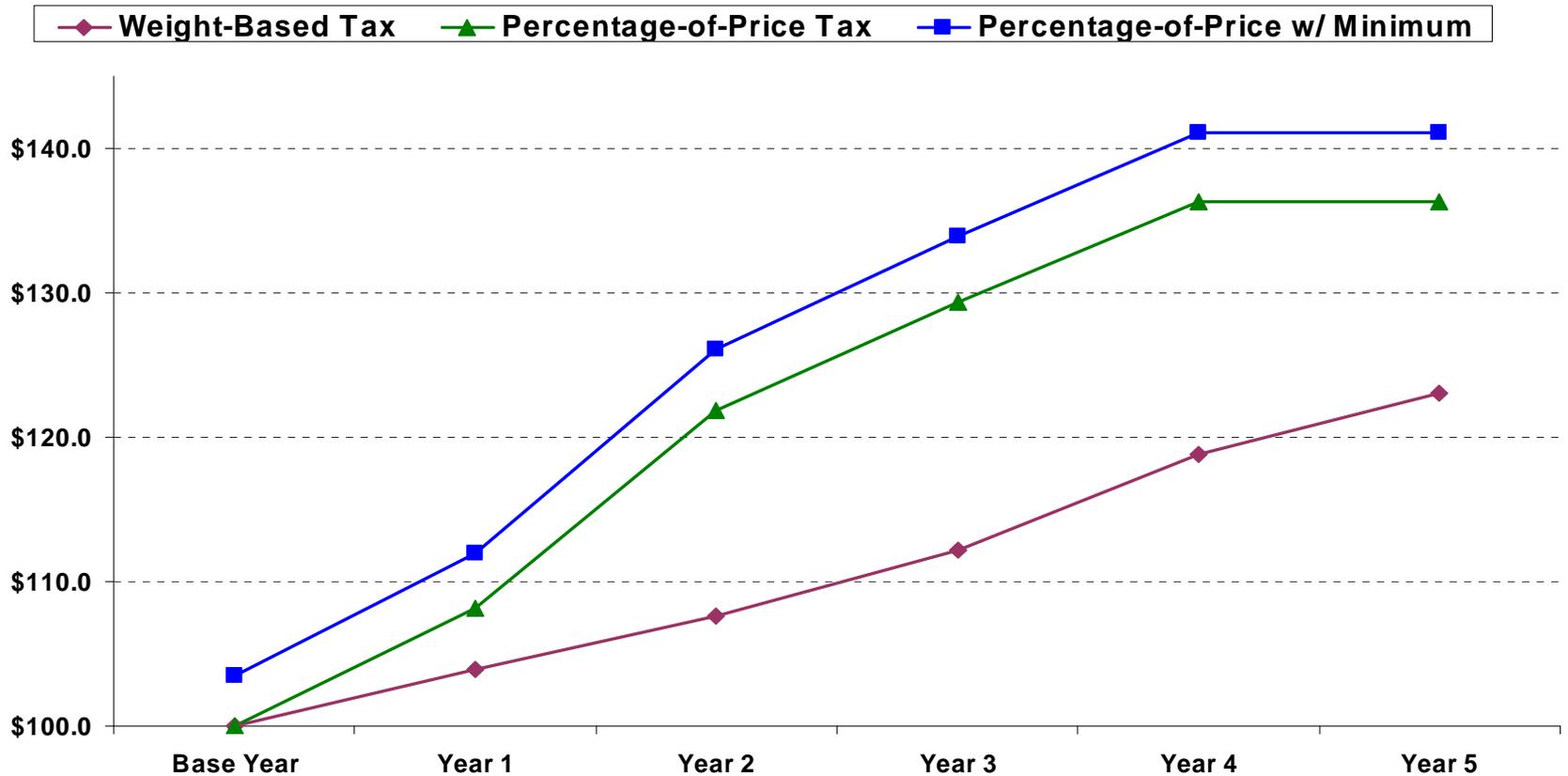
Revenue Losses From Standard Weight-Based Tax on Moist Snuff (in constant dollars)



Projections assume stable consumption and sales over time, with inflation at 2% per year.

Differences in State Revenues From Different Ways of Taxing Moist Snuff

-- An Historical Perspective --



[Based on actual 2000 to 2005 moist snuff sales price and volume data for from the U.S. Federal Trade Commission, and on recent industry data on the moist snuff market share and average prices of premium, value and discount brands.]

Michigan's Proposed Tobacco Tax Rates

(no cigarette tax increase)

Product	Current Tax Rate	Proposed Tax Equity Rate
Cigarettes	\$2.00 per pack	\$2.00 per pack
Cigarillos, Blunts	32% of wholesale price	70% of wholesale price or \$2.00 per pack of five
"Little Cigars"		Taxed as cigarettes
Conventional Moist Snuff Smokeless Tobacco		70% of wholesale price or \$2.00 per 1.2-oz. can
Snus, Lozenges, Other Single-Dose Smokeless Tobacco		70% of wholesale or 10¢ per dose (\$2.00 per 20)
Roll-Your-Own Tobacco		70% of wholesale price or \$2.00 per 0.65 oz.

Benefits from Equalizing OTP Tax Rates to Current Cigarette Tax Rate

New state OTP tax revenue each year	\$41 million
Decline in youth OTP use	24%
Decline in overall OTP consumption	13%

It is not currently possible to provide specific estimates of all the related public health benefits and healthcare cost savings that these tobacco use declines would secure for the state, but they would be significant.

Michigan's Proposed Tobacco Tax Rates

(with \$1.00 cigarette tax increase)

Product	Current Tax Rate	Proposed Tax Equity Rate
Cigarettes	\$2.00 per pack	\$3.00 per pack
Cigarillos, Blunts	32% of wholesale price	95% of wholesale price or \$3.00 per pack of five
"Little Cigars"		Taxed as cigarettes
Conventional Moist Snuff Smokeless Tobacco		95% of wholesale price or \$3.00 per 1.2-oz. can
Snus, Lozenges, Other Single-Dose Smokeless Tobacco		95% of wholesale or 10¢ per dose (\$3.00 per 20)
Roll-Your-Own Tobacco		95% of wholesale price or \$3.00 per 0.65 oz.

Benefits from a \$1.00 cigarette tax rate increase and OTP tax equalization

New state cigarette tax revenue each year	\$193.2 million
Kids alive today who will not become smokers	97,400
Current adult smokers who will quit	38,500
Premature smoking-caused deaths prevented	41,300
5-year healthcare savings from fewer smoking-affected pregnancies & births, heart attacks, and strokes	\$35.3 million
Long-term healthcare savings from smokers averted	\$2.0 billion

New state OTP tax revenue each year	\$62.2 million
Decline in youth OTP use	44.2%
Decline in overall OTP consumption	23.8%

Some Popular Industry Arguments...how to respond

Myth #1 -

Cigarette Company Myth: Cigarette tax increases are regressive and hurt poor people.

- **The cigarette companies have it backwards: it is the harms from smoking that are regressive.**
- **Smokers who quit or cut back because of a cigarette tax increase save a lot of money, and most of those who quit or cut back are low-income smokers.**
- **Most of the reductions to smoking-caused disease and other harms produced by cigarette tax increases will occur in lower-income households.**
- **Polls consistently find strong support for tobacco tax increases among lower-income communities.**

Myth #2 -

Cigarette tax increases unfairly target smokers and make them shoulder the burden for statewide budget problems.

- **Total state revenues from cigarette taxes are currently far less than conservative estimates of state smoking-caused costs.**
- **To make the tax increases even more fair to smokers (and better for public health), the state should allocate a portion of the new tax revenues to initiate or expand programs to help adult and youth smokers quit .**
- **Smokers who do not want to pay the tax increase can quit smoking or cut back.**

Myth #3 -

What's next, raising taxes on fatty foods?

Raising cigarette taxes is just the first step in the public health Nazi's plan to tax everything that is bad for you.

- **There are strong, clear reasons to treat cigarettes and other tobacco products differently and more harshly than any other consumer products.**

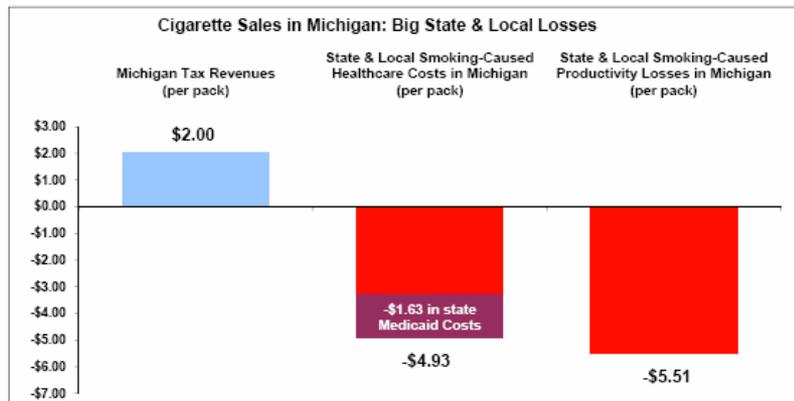
State-Specific One-Pagers

DOESN'T MICHIGAN ALREADY GET A LOT OF MONEY PER PACK?

No!

Michigan currently receives \$2.00 in cigarette tax revenues per pack sold, but loses more than \$10 per pack sold and smoked in the state because of smoking-caused healthcare and other costs and smoking-caused worker productivity declines.

As the following chart shows, the state's tax revenues of \$2.00 per pack quickly disappear when set against the \$4.93 per pack in state smoking-caused health care costs each year, including \$1.63 per pack in smoking-caused state Medicaid program costs per pack. Making matters worse, the government and private sector employers in the state lose another \$5.51 per pack in lost worker productivity, just from productive worklives being cut short by premature smoking-caused death.



An additional dollar per pack state cigarette tax would substantially increase the state's tax revenues per pack and also help to reduce all the smoking-caused costs and productivity losses in the state. But even after these major improvements, the state would still be suffering more than \$10 per pack in healthcare costs and other economic losses – while the cigarette companies would still be enjoying profits.

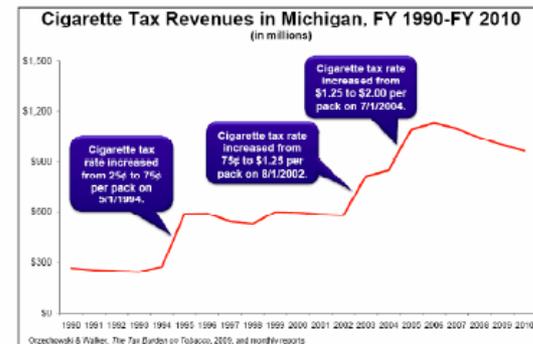
* Additional productivity losses, not shown in the chart, come from productive worklives being cut short by smoking-caused disability and from smokers being absent from work for illness more than nonsmokers, taking smoking breaks while at work, and being less productive when on the job. Available research and data has not yet calculated the per-pack costs of these additional productivity losses in Michigan caused by smoking, but it is clear that they are enormous, totaling at least several dollars per pack.

TOBACCO TAX INCREASES OFFER MICHIGAN A RELIABLE SOURCE OF SUBSTANTIAL NEW STATE REVENUES

State tobacco taxes are among the most predictable sources of revenue that states receive, rarely experiencing sharp changes from one year to the next (except when revenues go up substantially in response to state rate increases).

The higher level of state tobacco tax revenues after a rate increase will gradually decline over time as state smoking levels continue to shrink, but the revenue levels will still continue to remain much higher than they would have been without the rate increase. In addition, these smoking-reduction revenue declines will occur at a slow, predictable rate, making related state budgeting quite easy. At the same time, these modest annual reductions to state cigarette tax revenues from ongoing smoking declines will be dwarfed by the much larger government and private sector cost savings from those same smoking declines.

For example, prior to Michigan's 1994 cigarette tax rate increase, the state's cigarette tax revenues had been more or less holding steady for about 10 years, with a slight downward trend from gradual ongoing smoking declines. Then, state revenues increased by more than \$300 million per year when the state raised its tax rate by 50 cents on May 1, 1994. [See graph below.] A similar pattern can be seen before and after Michigan's 2002 rate increase. After the large increase in revenues caused by the 2004 rate increase, state cigarette revenues have subsequently declined gradually, due to continuing smoking declines, which, predictably, were accelerated by the 61-cent federal cigarette tax increase in early 2009. But even after those sharper smoking declines from the federal tax increase, Michigan will still receive at least \$90 million more cigarette tax revenues in FY 2011 than it received in the year before its last cigarette tax increase.



Michigan smoking data confirm that the year-to-year revenue declines after the sharp revenue increase due to the 2004 rate increase were caused by continuing smoking declines. For example, from 2003 to 2009, the number of adult smokers in the state dropped by 500,000, sharply reducing smoking-caused death and disease in the state and locking in future healthcare cost savings of more than \$4.7 billion. In contrast, the declines in annual state cigarette tax revenues from the peak year right after the 2004 rate increase through 2010 total only \$129 million.

With a new rate increase, Michigan will enjoy immediate increases in tobacco tax revenues, reduced smoking levels, and related cost savings. After that, as with the last tax increases, revenues will decline modestly over the years as smoking rates continue to go down. But total state cigarette tax revenues will remain much higher than pre-tax-increase levels and the ongoing smoking declines will continue to lock in significant public health benefits and cost savings.