



**WRITTEN TESTIMONY OF:
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**IN SUPPORT OF
A SIGNIFICANT INCREASE IN THE TOBACCO TAX
FOR THE HOUSE WAYS AND MEANS COMMITTEE**

**Columbus, OH
March 9, 2017**

Thanks to Chairman Schaffer and other members of the Committee for allowing me to submit testimony in support of a significant increase in Ohio's tobacco tax. You have a tremendous opportunity to dramatically improve public health in Ohio by reducing tobacco use, while at the same time raising hundreds of millions of dollars to address budget issues and help save vital state programs. My testimony will cover the benefits of tobacco tax increases, the importance of a significant increase that impacts the consumer price of tobacco products, and address some of the claims you may hear from the opposition.

Very simply, raising the tobacco tax by \$1.00 per pack is a WIN, WIN, WIN for Ohio. It's a win for public health because it will reduce tobacco use and its devastating health effects. This is why we support the tobacco tax. However, it's also a win for the state budget because, despite declines in consumption, the new tax rate will raise revenues to a higher level that will be maintained for years to come. Finally, as poll results show, it's even a win among voters because Ohio voters strongly favor increasing the tobacco tax.

Public Health WIN

The toll that tobacco takes on Ohio is devastating. According to the U.S. Centers for Disease Control and Prevention (CDC), tobacco use takes the life of more than 20,000 of your fellow Ohioans every year. This horrible toll will continue unless we act aggressively. Without action, 42,200 Ohio kids will smoke their first cigarette this year. Another 7,100 will become regular daily smokers, and if current trends continue, 259,000 kids alive today in Ohio will die a premature death from tobacco use.

By raising the state's tobacco tax by \$1.00 per pack, Ohio WILL reduce smoking, and all its attendant devastation, especially among kids. While we may not intuitively believe that \$1.00 is enough to make a difference to today's kids, who seem to have more money than any of us ever did as children, the data simply do not lie. More than 100 studies prove, and even the tobacco industry agrees, that when tobacco product prices go up notably, tobacco use goes down, especially among kids.

Ohio had a chance to address this issue in recent years, but ultimately passed just a 35-cent increase in the cigarette tax in 2015. That increase was too small to have a positive impact on health, especially since tobacco companies can easily nullify such small amounts with price discounts and other promotions. For instance, after Louisiana's 50-cent cigarette tax increase went into effect, cigarettes were being sold in that state with 50-cent coupons attached right on the packs.

It will take a significant tax increase, such as \$1.00 per pack or more, to produce a health WIN for Ohio. That would keep 50,300 kids from becoming smokers and encourage 64,900 smokers to quit, ultimately saving 32,400 Ohioans from a premature death due to tobacco use. The 2014 Surgeon General's report stated, "Evidence shows that large tax and, hence, price increases will decrease tobacco use each time they are implemented." But the key is to have a large enough increase.

These dramatic gains in health will be further enhanced if Ohio dedicates some portion of the new tax revenues to tobacco prevention and cessation efforts. States that have invested in comprehensive tobacco prevention and cessation programs have reduced tobacco use at rates far greater than the rest of the country, and these declines are in addition to those caused by tobacco price increases. We and our partner organizations recommend \$35 million a year be spent on to help Ohio kids from smoking and help smokers quit. That is far less than the \$132 million that the CDC recommends, but a great improvement over the \$13.5 million allocated for the current fiscal year.

Financial WIN

Aside from the public health impact, there is another reason that 48 states and DC have raised their tobacco tax more than 100 times since 2002, with 34 states and DC increasing their rates multiple times. Even with the declines in tobacco use that occur as a result, these tobacco tax increases ALWAYS result in significant revenue for the state. Simply put, every state that has raised its tobacco tax significantly has seen revenues increase dramatically even as consumption declines.

It is estimated that a \$1.00 increase in the cigarette tax alone will raise at least \$313 million in new revenue in the first year after the tax. This estimate takes into account reductions in smoking as a result of the tax and an increase in tax avoidance in response to the tax. Equalizing the tax on other tobacco products with the tax on cigarettes would produce additional new revenue, as well as additional health benefits for Ohio.

There are countless examples of higher revenues after tobacco tax increases from states all over the country. In the past 10 years, 17 states and Washington, DC, passed \$1 per pack or more increases in their cigarette tax rates: California, Connecticut, Florida, Illinois, Iowa, Maryland, Massachusetts, Minnesota, Nevada, New York, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Washington state, and Wisconsin. Two of the states, Massachusetts and New York, increased their tax rates by at least \$1 per pack *twice* during that period. These states vary in size and circumstance, but each generated tens or hundreds of millions in new revenue, despite declines in pack sales.

Revenues from tobacco taxes will decline over time, and that is a good thing because that means fewer people are using tobacco products, but these declines will be gradual; they are predictable, and they are easily adjusted for. What's more, as the gradual declines in tobacco tax revenue reflect declines in tobacco use, tobacco-related health care costs, many of which are borne by the state, will decline accordingly. Currently, tobacco-related disease costs Ohio \$5.6 billion in direct health care costs each year, much of it borne by taxpayers. Each Ohio household hold pays \$1,058 per year in taxes to cover these tobacco-related health care costs, even if no one in that household smokes.

But after a significant tobacco tax increase, Ohio will begin saving money from reduced health care costs almost immediately due to declines in tobacco use. More than \$67 million in health care costs will be averted in the first five years after the tax increase, from reductions in the costs of treating lung cancer, heart attacks, strokes, and the effects of smoking during pregnancy. More than \$2.3 billion million in health care cost savings will accrue over the lifetime of those prevented from becoming smokers and those who quit as a result of the tax increase.

Political WIN

With these fiscal and health benefits, it is no wonder that year after year, polls show that a majority of Ohio voters favor increasing the tobacco tax. So the tobacco tax is not only a win for the state's health and its budget; it is also a political win for legislators who support it.

Opposition Arguments

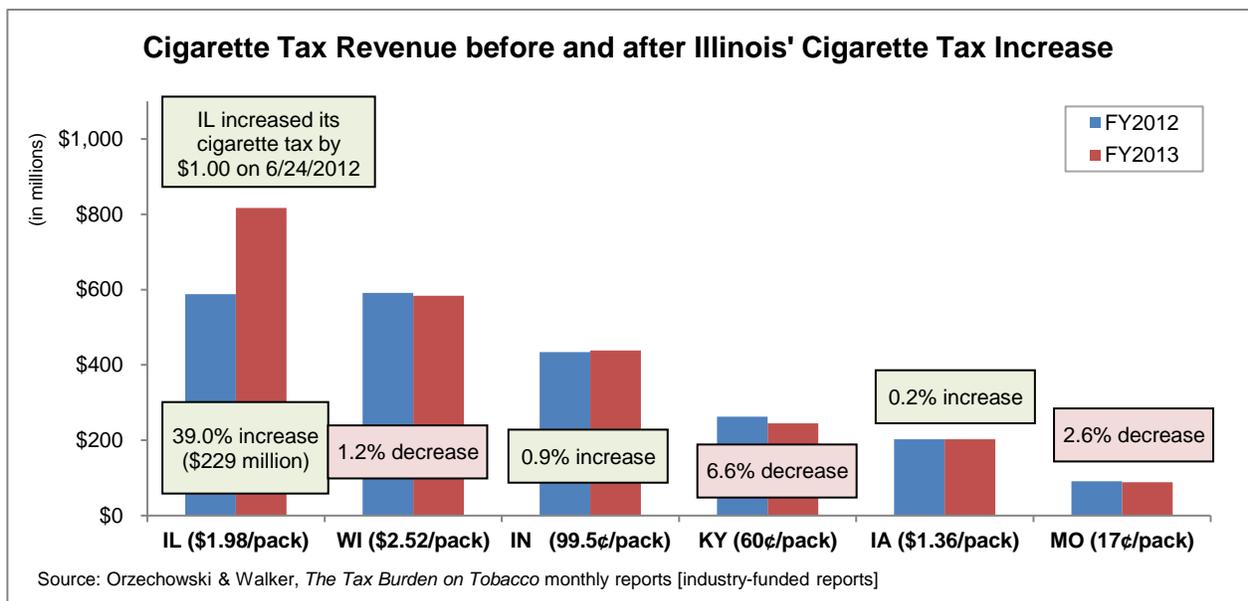
As you debate this issue, you will hear a lot of talk about cigarette smuggling, or how smokers will avoid the new tax through cross-border sales, which opponents argue will lead to lost business, higher unemployment, and substantial amounts of new revenue for the states bordering Ohio. Of course, these claims are overblown. We are not going to pretend that tax avoidance is non-existent.

Indeed, there will be some that try to avoid paying the increased tax. But while some of this will occur, tax avoidance will be nominal, short-lived, and will not come anywhere NEAR offsetting the tremendous benefits of the tobacco tax increase.

As legislatures grapple with challenging budget decisions, the tobacco industry and its allies have been making their rounds in a number of states to oppose tax increases. For instance, the Mackinac Center for Public Policy, along with the Tax Institute, recently issued its annual report claiming to quantify the level of illegal cigarette sales across state borders. There are many reasons to be skeptical of these claims. In fact, the National Research Council and Institute of Medicine comprehensively reviewed the evidence on tobacco smuggling in the U.S. and found that “industry-sponsored estimates of the size of the illicit market tend to be inflated. More generally, concerns have been raised about the quality and transparency of industry-funded research on the illicit tobacco trade.”¹ Both groups have a long history of receiving funding from tobacco companies such as Altria (the makers of Marlboro cigarettes), so it’s no surprise that they would release something that reflects the position of their funders.

When you hear claims of smuggling, tax evasion and potential for lost revenues, look at the dozens of tax increases over the years and the data showing how much revenue the state received before and after the cigarette tax increases. Time and time again you will see that the state that raises its tobacco tax does better than a neighboring state that does not.

When Illinois last increased its cigarette tax by \$1.00 to \$1.98 on June 24, 2012, its surrounding states saw minimal revenue increases, while Illinois collected more than \$229 million in new revenue. The chart below clearly shows how much more of a revenue benefit Illinois’ increase was for that state, while its neighboring states lost revenue or only had minimal gains. Even though Illinois borders Missouri, which has the lowest cigarette tax in the nation, Missouri’s cigarette tax revenue did not increase during this period, indicating no increase in cross-border sales. In fact, both Missouri and Kentucky lost revenue during the twelve months following Illinois’ tax increase. In addition, Indiana’s revenues increased by less



than one percent, despite its proximity to Cook County and Chicago, with their additional local cigarette taxes. Meanwhile, Illinois’ cigarette tax revenues increased by about \$229 million, or 39 percent, even while cigarette pack sales decreased by 31 percent.

Altria and its allies have been distributing information showing that cigarette pack sales declined after recent state tobacco tax increases. Of course, that is exactly what we knew would happen after the tax increase. Time and again, and in many states, when one state increases its tobacco tax and its neighboring state does not, tobacco tax revenues still INCREASE.

One recent example of the tobacco industry using misleading arguments against tobacco tax increases occurred in Minnesota. After the state's \$1.60 per pack tobacco tax increase in 2013, the tobacco industry paid for a study claiming that Minnesota's 2013 tax increase led to increases in sales across the border from Minnesota and reductions in employment. A report released by Dr. Lisa Mattson, Director of the Women's Clinic at Boynton Health Service at the University of Minnesota, Dr. Frank Chaloupka, a prominent health economist and professor at the University of Illinois at Chicago, and Dr. Raymond Boyle, Director of Research Programs at ClearWay Minnesota, concluded that the tobacco companies' report, ". . . is consistent with the industry's past efforts to fight tobacco price increases. It fails to meet accepted standards for economic research, and a quick look at real-time data suggests the report's assumptions and conclusions are not based on the actual experiences in Minnesota and its border states."²

Here are the facts: on July 1, 2013, Minnesota increased its cigarette tax by \$1.60 per pack, tied for the highest one-time increase in any state. The increase gave Minnesota a tax rate of \$2.83 – more than one dollar per pack higher than two of its four neighboring states (Iowa and South Dakota) and more than two dollars higher than North Dakota. As a result of the increase, Minnesota received more than \$204 million in new revenue (a 56% increase) in the first 12 months, while its neighboring states with lower cigarette tax rates barely benefited. In nearby Iowa and Wisconsin, revenues and cigarette sales actually decreased during that time, while North Dakota and South Dakota's revenues only increased by 7.9 percent (\$1.7 million) and 0.5 percent (\$285,444), respectively. So, Minnesota took in more than \$200 million in new revenue while North Dakota and South Dakota combined brought in a small fraction that amount – only \$2 million, combined, in new revenue – despite a \$1.60 per pack tax increase right next door.³ Further, data from the Minnesota Department of Employment and Economic Development show very low rates of unemployment in Minnesota counties near bordering states.⁴

Again, look at these state experiences, then ask yourselves one question. Which state would you rather be? The one that is reducing smoking, saving lives, and lowering health care costs, all while increasing revenue, or the one with minimal revenue gains, if any, and even fewer public health gains?

Of course the arguments do not end there. The convenience store industry is yet another one of the tobacco industry allies that fights proposals to increase the tobacco tax.⁵ While their lobbyists claim that stores will lose substantial revenue and be forced to close as a result of any tax increase, published research shows just the opposite. The number of convenience stores does not decline with tobacco tax increases or reductions in tobacco use.⁶ When people stop purchasing tobacco products, they will continue to buy other products, which contribute to the state's economy, including profits for small businesses.

How many reasons do we need to raise the tobacco tax?

In addition to all the data we and our partner organizations have provided, the actual experiences of many states prove that they see a significant increase in revenue despite a decrease in use of the products following a tobacco tax increase. Cigarette sales always go down, tobacco tax revenue always goes up, retailers always complain, and the tobacco companies always mislead.

Because our opponents know that increasing the tobacco tax is good for Ohio and bad for tobacco product sales, they are making up or exaggerating reasons to oppose it. Those who tell you it won't reduce smoking are ignoring the science and the conclusions of experts all over the world. Those who tell you it won't raise revenue are denying the real-world experience of every single state that has increased its tobacco tax significantly.

The bottom line is that the tobacco tax increase is a health win and a revenue win. The difference between us and the industry (and its allies) is that we think the decline in tobacco sales is a good thing, but the industry thinks it's a bad thing.

So how many reasons do we need to raise the tobacco tax?

- Is it 50,300 – the number of kids whom the tax increase will keep from becoming smokers?
- Is it \$313 million – the dollars in new cigarette revenue produced by the tobacco tax?

Members of the committee, this is indeed a great opportunity to improve upon Governor Kasich's proposal by increasing the tobacco tax by \$1.00. While you are making many difficult decisions for Ohio, this should be an easy one. How many times are you presented with a proposal that will save thousands of lives without costing a penny, but will also raise tens of millions of dollars in much-needed revenue for Ohio **and** has the support of voters?

It's time to raise the tobacco tax in Ohio by a meaningful amount. Ohio kids and taxpayers deserve no less.

Thank you.

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² Mattson, LR, Chaloupka, FJ, & Boyle, R, *Get the Facts: Minnesota's 2013 Tobacco Tax Increase is Improving Health*, February 10, 2015, http://tobaccoeconomics.org/wp-content/uploads/2015/02/2013-Tobacco-Tax-White-Paper_FINAL_10Feb15.pdf.

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