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To: All Legislators
From: Elisa Maser, Policy Manager, Nevada Tobacco Prevention Coalition
Date: Thursday, March 6, 2003
Re: Tobacco Excise Taxes – A Win-Win-Win Solution for Nevada

Increasing the tobacco excise tax is a <u>public health win</u> for Nevadans:

- Tobacco use is our number one health threat. Nevada has a higher percentage of smokers (27%) than *any other state,* except Kentucky.
- In Nevada, 65% of smokers *want to quit.*
- Increased excise taxes always reduce the number of smokers and the amount people smoke. The Legislative Counsel Bureau estimates a 10% increase in the price reduces tobacco consumption by 4%.
- States that have increased taxes see even *greater reductions* in tobacco use by kids, lower income smokers, ethnic people of color, and pregnant women.

Increasing the tobacco excise tax is a <u>fiscal win</u> for Nevadans:

- Nevada's 5-year health care savings from a 70-cent per pack tax increase are over $9 million.
- According to R.J. Reynolds, the federal government has increased excise taxes 62.5% since 2000; tobacco use has decreased; and *still*, tobacco tax revenues have increased *over 75%* since 1999.
- Even after California's 50-cent tobacco tax increase in 1999, *only five percent* of continuing smokers bought cigarettes from other states, tribe or the Internet to avoid the tax increase.
- *Every state* that has increased tobacco taxes has sold fewer cigarettes and has **<u>ALWAYS had increased state revenue</u>**.

Increasing the tobacco excise tax is a <u>political win</u> for Nevada:

- Nevadans favor increasing the tobacco tax. A July 2002 poll showed that 70% of all Nevadans support increasing the tobacco tax.
- Statewide, 67% of voters favored a $1 tobacco tax increase. Voters in every part of the state support a $1 increase. Even 57% of "conservative Republicans" favor a $1 increase.
- Voters favor a tobacco tax increase *more than any other type* of tax increase or spending cut.

<u>Nevada Tobacco Prevention Coalition</u>
For more information, contact:
Kendall Stagg, Executive Director (775) 250-7626 or kstagg@cancer.org
Elisa Maser, Policy Manager (775) 825-1877 or e

ASSEMBLY COMMITTEE ON TAXATION 5 pages
DATE: 03/04/03 ROOM: 4/80 EXHIBIT F
SUBMITTED BY: Elisa Maser

This ad appeared in the Las Vegas Review Journal and the Reno Gazette Journal on Tuesday, March 4, 2003.
Nevada Tobacco Prevention Coalition: For more information, contact Kendall Stagg, Executive Director (775) 250-7626 or kstagg@cancer.org;
Elisa Maser, Policy Manager, (775) 826-1877 or elisam@migcom.com

American Cancer Society

American Heart Association.
Fighting Heart Disease and Stroke

AMERICAN LUNG ASSOCIATION. of Nevada

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CAMPAIGN for TOBACCO-FREE Kids®

BENEFITS FROM A CIGARETTE TAX INCREASE IN NEVADA

Current State Cigarette Tax: 35 Cents Per Pack (32nd among all states)

Smoking-caused costs in state per taxed pack sold: $6.64
Average retail price per pack: $3.29 (state share from excise and sales taxes: 55 cents)

Total state Medicaid program smoking costs each year: $96 million
State cigarette tax revenue each year: $61.2 million (2001)

Last Nevada Cigarette Tax Increase: 07/01/89

Projected Benefits From Increasing the State Cigarette Tax By 70 Cents Per Pack

- **New state cigarette tax revenues each year: $90.2 million**
- **New state sales tax revenues: $1.0 million**
- **Pack sales decline in state: -26.8 million**
- **Percent decrease in youth smoking: 14.7%**
- **Increase in total number of kids alive today who will not become smokers: 26,000**
- **Number of current adult smokers in the state who would quit: 17,000**
- **Number of smoking-affected births avoided over next five years: 2,700**
- **Number of current adult smokers saved from smoking-caused death: 3,700**
- **Number of kids alive today saved from premature smoking-caused death: 8,300**
- **5-Year healthcare savings from fewer smoking-affected pregnancies & births: $3.1 million**
- **5-year healthcare savings from fewer smoking-caused heart attacks & strokes: $6.0 million**
- **Long-term healthcare savings in state from adult & youth smoking declines: $452.2 million**

These projections provide careful estimates of the new revenues and public health benefits the state would obtain from the cigarette tax increase above and beyond what it would get if it does not raise the tax. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and tax revenues) from new tax avoidance efforts after the tax increase by continuing continuing in-state smokers, and from fewer sales to smokers from other states or to informal or small-scale smugglers. The projections are also based on research findings that a 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4%, and assume that the state tax will keep up with inflation. Nevertheless, cigarette tax increases both reduce smoking levels and increase state revenues because the increased tax per pack brings in more new revenue than is lost from the decrease in the number of packs sold. Sales tax revenues from cigarette sales similarly increase, despite fewer pack sales, because the state sales tax percentage applies to the total retail price of a cigarette pack, including the increased state cigarette tax amount. Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over lifetimes of persons who stop smoking or never smoke because of tax increase.

Sources. Chaloupka, F, "Macro-Social Influences: Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other price studies at http://tigger.uic.edu/~fjc and www.uic.edu/orgs/impacteen. Orzechowski & Walker, *Tax Burden on Tobacco*, 2002. USDA Economic Research Service, www.ers.usda.gov/Briefing/tobacco. State tax offices. Farrelly, M. et al., "Cigarette Smuggling Revisited," U.S. Centers for Disease Control & Prevention (CDC), in press. CDC, *State Highlights 2002: Impact and Opportunity, April 2002*, www.cdc.gov/tobacco/StateHighlights.htm. Miller, P., et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3(1): 25-35, February 2001. Lightwood, J. & S. Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation - Myocardial Infarction and Stroke," *Circulation* 96(4): 1089-1096, August 19, 1997, http://circ.ahajournals.org/cgi/content/full/96/4/1089. Hodgsen, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992.

For more information, see the Campaign fact sheets -- including *Raising State Tobacco Taxes Always Reduces Tobacco Use (& Always Increases State Revenues)* – at http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18 and http://tobaccofreekids.org/reports/prices.

National Center for Tobacco-Free Kids, 1.1.03 / Eric Lindblom 3/6/03

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CAMPAIGN for TOBACCO-FREE Kids

RAISING STATE CIGARETTE TAXES ALWAYS INCREASES STATE REVENUES AND ALWAYS REDUCES SMOKING

Over the past decade, many states have raised their cigarette tax rates and, as the economic research predicts, in each of these states the tax increases reduced cigarette consumption below what it would otherwise have been. Every single one of these states also enjoyed increased cigarette tax revenues, despite the related reductions in smoking and cigarette sales. In every state the revenue losses from fewer cigarette sales were more than made up for by the increased state revenues per pack.

Recent State Experiences With Cigarette Tax Increases

State	Date	Tax Increase Amount (per pack)	New State Tax (per pack)	State Consumption Decline	Nationwide Consumption Decline	Revenue Increase (percent)	New Revenues (millions)
Alaska	10/97	71¢	$1.00	-13.5%	-4.7%	+202%	$28.7
California	1/99	50¢	87¢	-18.9%	-6.6%	+90.7%	$555.4
Hawaii	7/98	20¢	$1.00	-8.1%	-3.4%	+19.9%	$6.4
Illinois	12/97	14¢	58¢	-8.9%	-4.7%	+19.0%	$77.4
Maine	11/97	37¢	74¢	-15.5%	-4.7%	+66.7%	$30.8
Maryland	7/99	30¢	66¢	-16.3%	-3.2%	+52.5%	$68.0
Massachusetts	10/96	25¢	76¢	-14.3%	-0.9%	+28.0%	$64.1
Michigan	5/94	50¢	75¢	-20.8 %	-0.5%	+139.9%	$341.0
New Hampshire	7/99	15¢	52¢	-10.4	-3.2%	+27.1%	$19.6
New Jersey	1/98	40¢	80¢	-16.8%	-4.7%	+68.5%	$166.6
New York	3/00	55¢	$1.11	-20.2%	-5.7%	+57.4%	+$365.4
Oregon	2/97	30¢	78¢	-8.3%	-0.9%	+77.0%	$79.8
Rhode Island	7/97	10¢	71¢	-1.5%	-1.3%	+16.2%	$8.6
South Dakota	7/95	10¢	33¢	-5.6%	-1.2%	+40.4%	$6.1
Utah	7/97	25¢	51.5¢	-25.7%	-1.3%	+71.0%	$17.6
Vermont	7/95	24¢	44¢	-16.3%	-1.2%	+84.2%	$11.7
Wisconsin	11/97	15¢	59¢	-6.5%	-4.7%	+25.8%	$52.9

Sources: Orzechowski & Walker, *Tax Burden on Tobacco* (2002) [tobacco-industry funded volume of state tobacco tax data]; state revenue offices. Consumption declines and revenue increases calculated from the last full fiscal year (7/1 to 6/30) before the tax increase to the first full year after the increase. Nationwide consumption declines are for all 50 states and Washington, DC. The power of state tax increases to reduce consumption beyond nationwide trends would be even more apparent if each tax-increase state's declines were compared to the decline (or increase) in consumption among all other states not including the state, itself, and any other state with a concurrent cigarette tax increase. State increases in 2002 by New York (39¢ increase), Washington State (60), Connecticut (61), Utah (18), Maryland (34) and Nebraska (30), and in 2001 by Rhode Island (29), Wisconsin (18), Arkansas (2.5), and Maine (26) are not included above because there is not yet sufficient data to calculate the year-to-year changes.

Cigarette Company Attacks on State Tobacco Tax Increases

For over 15 years, economic research studies have consistently documented the fact that cigarette price increases reduce smoking, especially among kids. These studies currently conclude that every 10 percent increase in the real price of cigarettes will reduce the total amount of adult smoking by about four percent and reduce teen smoking by roughly seven percent.[1] In addition, internal tobacco industry documents that have been made public in the various lawsuits against the cigarette companies show that since at least the early 1980s the

companies have fully understood that cigarette tax increases reduce their sales, especially among kids (their replacement customers).[2] In fact, the cigarette companies regularly admit that cigarette tax increases reduce cigarette sales in their official filings with the U.S. Securities and Exchange Commission.[3] Accordingly, it is not surprising that the companies spend millions of dollars to oppose proposed state cigarette tax increases. But it is surprising that the companies and their allies continue to argue, falsely, that cigarette tax increases will not reduce smoking.

The cigarette companies also oppose cigarette tax increases by arguing that the sales declines following the increases come primarily from surges in cigarette smuggling and smoker efforts to evade the higher cigarette taxes through cross-border purchases or internet cigarette sales. This argument ignores the established fact that the lion's share of the smoking reductions following a tax increase inevitably come from the related reductions in both the number of people who smoke and the number of cigarettes the remaining smokers consume. A survey in California, for example, found that soon after the state's 50-cent cigarette-tax increase went into effect in 1999 no more than five percent of all continuing smokers were purchasing cigarettes in nearby states, from Indian reservations or military bases, or via the internet, or were otherwise avoiding the state's cigarette tax.[4] It also appears that many smokers who initially try to avoid large state cigarette tax increases soon use up their stockpile of cigarettes purchased right before the increase or tire of driving across state border or going to the internet to buy cheaper cigarettes and return to the convenience of normal full-tax purchases in their own state.[5] Indeed, the vast majority of smokers prefer to buy cigarettes by the pack, but cross-border and internet purchases typically involve multiple cartons. These purchasing patterns and preferences explain the fact that in New York state, for example, taxable pack sales decreased sharply in the year after its 55-cent tax increase in March 2000 but then increased in the following year (despite new price increases by the cigarette companies).*

More to the point: *every single state that has significantly increased its cigarette taxes has significantly increased its revenues – despite the lost sales caused by the related smoking declines and despite any associated increases in cigarette smuggling or other tax-avoidance.*

National Center for Tobacco-Free Kids, April 19, 2002 / Eric Lindblom

For more on tobacco taxes, see the Campaign website at http://tobaccofreekids.org/reports/prices

For information on cigarette company involvement in cigarette smuggling, see www.tobaccofreekids.org/research/factsheets/pdf/0044.pdf

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[1] See, e.g., Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other studies at www.tigger.uic.edu/~fjc.

[2] See, e.g., Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," September 3, 1987, PM Bates Number: 2058122240/2241; R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase," September 20, 1982, RJR Bates Number 500045052/5132; Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," September 17, 1981, PM Bates Number: 2001255224/5227.

[3] See, e.g., Philip Morris 10-Q SEC report, May 11, 2001; RJR 10-Q report, August 1, 2001; Loews (parent corporation of the Lorillard cigarette company) 10-K Report, March 31, 1999.

[4] Cancer Prevention & Control Program, University of California - San Diego, *The California Tobacco Control Program: A Decade of Progress, Results from the California Tobacco Survey, 1990-1999*, Tobacco Control Section, California Department of Health Services, December 26, 2001, http://ssdc.ucsd.edu/ssdc/pdf/1999_Final_Report.pdf.

[5] See, e.g., Spencer, M., "Incensed Smokers Stock Up Before Tax Rises," *Hartford Courant*, April 3, 2002.

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* It is also worth noting that any real or imagined problems with smuggling and tax avoidance from New York's tax increase in 2000 were not significant enough to stop the state from increasing its cigarette tax again, by 39 cents, in 2002, to $1.50 per pack, the highest rate in the country.