

FISCAL NOTE
Requested by Legislative Council
01/14/2019

Bill/Resolution No.: HB 1450

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$29,200,000			
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1450 increases the cigarette tax rate by \$.40 per package.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of HB 1450 increases the cigarette tax from the current rate of \$.44 to \$.84 per package of twenty cigarettes.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1450 is expected to increase state general fund revenue by an estimated \$29.2 million in the 2019-21 biennium.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: 701.328.3402

Date Prepared: 01/21/2019

2019 HOUSE FINANCE AND TAXATION

HB 1450

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1450
1/22/2019
31192

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an increase in the tobacco products tax rate for cigarettes; and to provide an effective date.

Minutes:

Attachment 1-4

Chairman Headland: Opened hearing on HB 1450.

Representative Anderson: Introduced bill. Distributed written testimony, see attachments 1 and 2. Ended testimony at 3:55.

Chairman Headland: You've heard the general reason we have tax on tobacco is because of the problems associated with smoking. If you want to raise revenue, why not bring a sales tax increase or an income tax increase? Why put it on the back of the smoker?

Representative Anderson: I think the backs of the smoker at two cents a cigarette. I think sales tax is the most regressive tax we have. I don't think we should raise that. I wouldn't mind increasing income tax because that's graduated at who can pay. This is kind of a use tax. It doesn't affect anybody other than those that smoke.

Chairman Headland: They are North Dakotans and I think they would probably have something to say to that.

Representative B. Koppelman: Why go after a small group of people rather than a broad group if increased taxes are desired? Can the poor afford to pay more for their cigarettes being that they disproportionately smoke?

Representative Anderson: I'm not sure I would agree that there are more poor people who smoke as I know plenty of rich people who smoke too. Look at the healthcare costs and lost productivity from smoking. I'm looking at what the other states are doing near us and say this is an easy way to raise revenue.

Chairman Headland: Further support of HB 1450?

Heather Austin, Executive Director for Tobacco Free North Dakota: Distributed written testimony, see attachment #3. Ended testimony at 9:08.

Chairman Headland: Is Tobacco Free North Dakota part of the initiated measure?

Heather Austin: We were supportive at that time.

Chairman Headland: Was that two or four years ago?

Heather Austin: It would have been a little over two years ago.

Chairman Headland: I understand you want less people smoking. If we really cared, then why doesn't Tobacco Free North Dakota come with some type of legislation that would make tobacco products illegal in North Dakota because then you would really have an impact? All we seem to get is to punish the people that are doing it with higher taxes and maybe that would change their behavior. Give me some response.

Heather Austin: If I truly believe we could ban tobacco in the state I would personally go all in on that. I don't think this would go through our state's legislature.

Chairman Headland: A tobacco increase was voted down by the people and we still have to face these bills.

Heather Austin: The tobacco increase that was voted down by the people, there was a lot of misinformation brought forward by the tobacco industry. They spent nearly \$4 million in our state advertising against a 400% tax increase but never once mentioned the word tobacco. People just didn't understand it was a tobacco tax. Once they understood what it was the people I spoke with said they would have voted for that. I can attempt to get some of that data for you.

Chairman Headland: The committee is concerned about what the voters support.

Heather Austin: We have data showing polling ahead of that measure brought forth that showed public support over 50% for increasing the price of tobacco products.

Chairman Headland: Can we expect another initiated measure then if we are not willing as a legislature to increase taxes?

Heather Austin: I cannot speak for other groups I can only speak for Tobacco Free North Dakota and at this point we have not planned for nor started the process of an initiated measure for that purpose.

Chairman Headland: Who funds Tobacco Free North Dakota?

Heather Austin: We have a variety of sources; private donations from memberships, corporate sponsorships and partners that contribute annually, and then we also apply for grants at the state and federal levels. Currently, we administer a grant on behalf of the State Tobacco Prevention and Control Plan through the Health Department.

Representative B. Koppelman: Fortunately, the majority of people in North Dakota don't smoke. You're saying a majority of those people would've issued their will against somebody who does smoke by charging them a 400% tax increase. If they were properly informed they would have voted yes?

Heather Austin: The polling we did ahead of that measure showed both smokers and nonsmokers were in the majority of favoring that tax increase.

Chairman Headland: Further support? Is there opposition?

Mike Rud, President of the North Dakota Petroleum Marketers Association: Distributed written testimony, see attachment #4. Ended testimony at 16:35.

Representative Mitskog: With the proposed increase we would still be below our neighboring states. Do you still think we would see contraband?

Mike Rud: Not only contraband but we're also concerned with what could happen on the Native American reservations. We only have one tobacco compact at this point within the state of North Dakota with the tribes and that is Standing Rock. That opens the door to people going to the reservation and buying cartons of cigarettes and taking them back to their city and selling them to their friends. Any type of increase is going to continue to put extra burden on law enforcement to try and curb that from happening.

Representative Mitskog: I live on the border and a lot of people come in from the cities to buy cigarettes in North Dakota. Can they legally do this?

Mike Rud: They can do it but it's not legal. It's really hard to track that.

Chairman Headland: If they are buying product for themselves there is certainly nothing illegal about purchasing a legal product in another state and taking it home. If they are buying to resell then you run into legal issues.

Mike Rud: Correct. We know that \$.40 is opening the door; we know there will be more initiated measures to try and change the law.

Chairman Headland: Is there further opposition? Seeing none we will close the hearing.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1450
1/22/2019
31227

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an increase in the tobacco products tax rate for cigarettes.

Minutes:

No attachments

Chairman Headland: We're open for discussion.

Representative Blum: Upon doing research on this bill I pulled up the Truth initiative which is an anti-tobacco advocacy group and even their determination indicates that 72% of smokers are low income individuals. I have concerns that this is a very regressive tax regimen.

Chairman Headland: It was an interesting presentation by the bill sponsor stating she didn't care about that but she was just looking at it purely as a revenue standpoint. She suggested that sin taxes are not the best way to have revenue coming into your state because it is not as reliant as income taxes or something along those lines. Maybe she should have considered something different if she's just trying to generate revenue.

Representative B. Koppelman: When we heard from Tobacco Free of North Dakota she wanted to come up with an amendment to double or triple the tax increase. She indicated it would take something severe to use it as something to discourage tobacco use. She didn't feel this was enough. I don't know that as a deterrent method if this is even effective in its current form from what she was saying. Now it's a question of if everyone wants to raise taxes. I sure don't.

Representative Ertelt: There was a bit of disingenuous between the sponsor and Tobacco Free because we heard initially that this was not trying to get people to stop smoking then Tobacco Free states the exact opposite. In the data they provided there appears to be no correlation between the amount of tax on a pack of cigarettes and the adult smoking rate listed on there. On the second page the top and bottom percentage of adult smoking rates shows Utah at just under 9%, West Virginia at 26%, and the tax in each state is \$1.70 in Utah and \$1.20 in West Virginia with a \$.20 difference. There's a huge difference in the amount of people smoking and it's not a substantial difference in the amount of tax. There doesn't

seem to be any correlation there. This doesn't seem to be doing what they want it to be doing anyhow other than raise taxes.

Chairman Headland: In my first session we had a bill to ban the sales of tobacco in North Dakota. The genius behind the bill was to point out the hypocrisy from group after group that testified saying why we can't do that. We found out it was all about money and those funding their organizations. I asked who was funding her and I don't know if she's getting any tobacco settlement dollars or anything like that but probably not anymore. There was a time we were funding those organizations. When you dig into this kind of stuff it becomes more about money than actually trying to help people.

Representative B. Koppelman: I was here for that hearing before I was a legislator. The American Heart Association, the American Cancer Society, and all the other groups about health living were there. They eluded that if we got rid of that they would lose their funding source which is funded by the tobacco tax that essentially funds their efforts to get people to stop smoking.

Chairman Headland: That's exactly right.

Representative Dockter: They made reference to the polling they had but to me the final poll was the voters and the voters rejected raising it. Now we, as a legislature, are supposed to overturn what the people voted on? I don't support this bill.

Representative Ertelt: MADE A MOTION FOR A DO NOT PASS

Representative Fisher: SECONDED

Chairman Headland: Is there further discussion?

**ROLL CALL VOTE: 11 YES 2 NO 1 ABSENT
MOTION CARRIED**

Representative Kading will carry this bill.

Date: 1-22-19
 Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1450**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Ertelt Seconded By Rep. Fisher

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Eidson		✓
Vice Chairman Grueneich	✓		Representative Mitskog		✓
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt	✓				
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading	✓				
Representative Koppelman	✓				
Representative Steiner	✓				
Representative Toman	✓				
Representative Trottier	A				

Total (Yes) 11 No 2

Absent 1

Floor Assignment Rep. Kading

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1450: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1450 was placed on the Eleventh order on the calendar.

2019 TESTIMONY

HB 1450

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Testimony on HB 1450 House Finance and Taxation Committee

Representative Pamela Anderson, District 41

January 21, 2019

Good Morning Chairman Headland and Committee Members.

This bill is a simple one- raises the tax on a pack of cigarettes by 40 cents. This is not a bill to try and get more people to quit smoking. This is a revenue bill, pure and simple. I don't believe anyone is going to quit smoking by raising the price of a cigarette by 2 cents.

You might wonder why bother? Because \$30 million is worth the bother. We must balance our budget every session and we have been balancing the last couple of sessions by reducing critical services. State employees haven't had a raise in four years, higher education budgets slashed, no meaningful funds to address our behavior health crisis, no real estate tax buy down- the list goes on. Just in balancing our personal budgets, sometimes we need to look for ways to increase our income. Our state budget is no different.

When we compare our tobacco taxes to our neighbors, this is an easy way to raise our income. Minnesota is at \$3.04, South Dakota \$1.53 and Montana \$1.70. Our smokers will not be flocking to the two states of Georgia and Virginia that have lower tobacco taxes to purchase their cigarettes and Minnesota, South Dakota and Montana will still flock to our state to buy. This increase of 40 cents a pack will not adversely affect the bottom lines of those that manufacture or sell tobacco. But, \$30,000,000 will have incredible positive impact on the quality of life of our citizens. A bill has been introduced for \$1,500,000 for the homeless and maybe we won't hear- good bill, but we cannot afford. This additional \$30M would go a long way to fund such needs.

At the very bottom of the map I passed out, note the statement of "Nationally, estimated smoking-caused health costs and lost productivity totals \$19.16 per pack."

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But, again, this bill is not an anti-smoking bill. It is a pro revenue bill for North Dakotans.

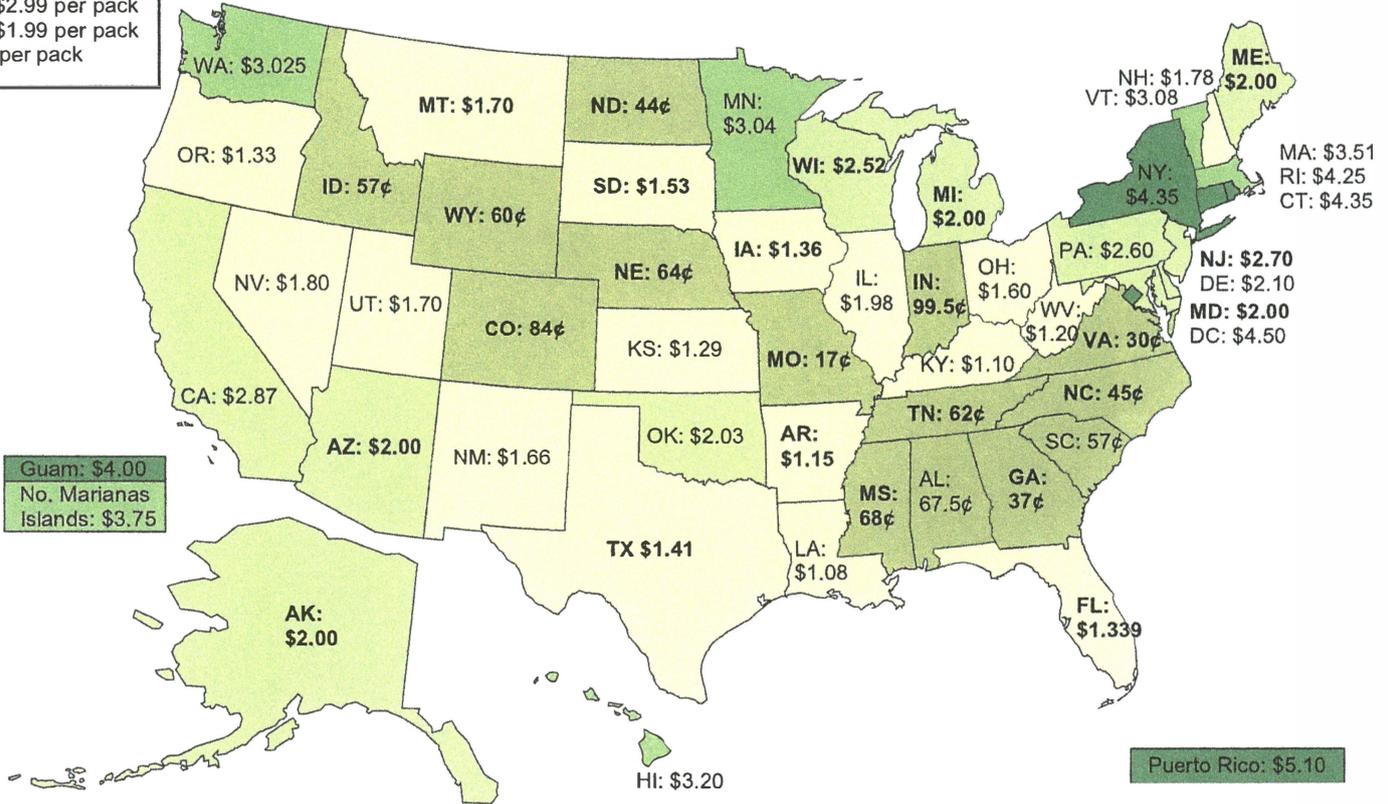
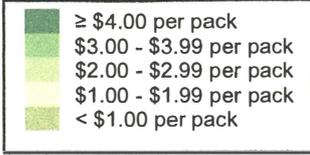
Committee, I ask for your support of HB 1450 and a Do Pass recommendation to the Assembly.



#2
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MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: \$1.79 per Pack



Map shows state cigarette tax rates and state average currently in effect. The states in bold have not increased their tax for at least 10 years (since 2009 or earlier). Currently, 36 states, DC, Puerto Rico, Northern Mariana Islands, and Guam have cigarette tax rates of \$1.00 per pack or higher; 19 states, DC, Puerto Rico, Northern Mariana Islands, and Guam have cigarette tax rates of \$2.00 per pack or higher; eight states, DC, Puerto Rico, Northern Mariana Islands, and Guam have cigarette tax rates of \$3.00 per pack or higher; three states, DC, Puerto Rico, and Guam have cigarette tax rates of \$4.00 per pack or higher; and Puerto Rico has a cigarette tax rate higher than \$5.00. The state average listed above does not include any of the U.S. territories. Federal cigarette tax is \$1.01 per pack. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago (\$1.18), Cook County, IL (\$3.00), New York City (\$1.50), Philadelphia (\$2.00), Aspen, CO (\$3.00) and Juneau, AK (\$3.00). Nationally, estimated smoking-caused health costs and lost productivity totals \$19.16 per pack.

Campaign for Tobacco-Free Kids, December 11, 2018 / Ann Boonn

For more information on state cigarette taxes and the benefits from increasing them, see <https://tobaccofreekids.org/fact-sheets/tobacco-control-policies/tobacco-taxes>.



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January 22, 2019

9:30 am CST

House Finance and Taxation Committee for the 66th ND Legislative Assembly

Chairman Headland, and members of the House Finance and Taxation Committee, hello, my name is Heather Austin, and I am the Executive Director for Tobacco Free North Dakota. Thank you so much for your time this morning.

Today I am here to show support for HB 1450, or the bill to increase the tax on cigarettes. The mission of Tobacco Free North Dakota is to improve and protect the public health of all North Dakotans by reducing the serious health and economic consequences of tobacco use, the state's number one cause of preventable disease and death.

In 2018 North Dakota observed the 25th anniversary of the last time we raised the price of tobacco in our state. At that time the tax rate was set at 44 cents per pack, making us 8th in the nation for tobacco tax rate. In the 25 years since that time, we gone from 8th to 48th with the same 44 cents still being collected. Not much else has held steady in that same amount of time. The tobacco industry has increased their wholesale prices numerous times, the federal tax rate has increased substantially, retail prices have increased, medical costs and insurance premiums have increased, etc. I could go on and on, as nearly nothing is the same price it was 25 years ago. We simply have not kept pace, or parity, in North Dakota. And now is the time to correct that.

We would also highly recommend considering raising the price of tobacco by at least \$1.00, all at once, to see maximum health benefits and youth deterrence to tobacco initiation. Smaller, or incremental, increases are too easy for the tobacco industry to "coupon" away so that consumer, and particularly youth, behavior is not as affected. I've included a data sheet showing what a \$1.25 increase would create in benefits to North Dakota, as an example of what a substantial increase could accomplish for North Dakota.

The Surgeon General has called raising prices on cigarettes "one of the most effective tobacco control interventions." i. Tobacco tax increases help make cigarettes too expensive for price-sensitive kids to buy and give smokers another incentive to quit. And I'm happy to point out that North Dakota has one of the best Quitlines in the nation with NDQuits. They are standing ready to help make sure no citizen actually has to continue paying the price of tobacco with their money or their health. The 2014 Surgeon General's report stated, "The evidence is sufficient to conclude that increases in the prices of tobacco products, including those resulting from excise tax increases, prevent initiation of tobacco use, promote cessation, and reduce the prevalence and intensity of tobacco use among youth and adults."ii.

Again, thank you for this time in front of you, Chairman Headland, and the Committee. It is very appreciated. Please consider amending the amount of the increase to at least \$1.00 and then vote Do Pass on HB 1450.

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May I take any questions?

Heather Austin
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www.tfnd.org

- i. U.S. Department of Health and Human Services (HHS), The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General, Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention (CDC), National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014. <http://www.surgeongeneral.gov/library/reports/50-yearsof-progress/index.html>.
- ii. HHS, The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>.



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NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A \$1.25 CIGARETTE TAX INCREASE IN NORTH DAKOTA

- The current state cigarette tax is 44 cents per pack (48th among all states and DC).
- Annual health care expenditures in North Dakota directly caused by tobacco use are \$326 million.

Projected New Annual Revenue from Increasing the Cigarette Tax by \$1.25 Per Pack: \$41.66 million

New Annual Revenue is the amount of additional new revenue the first full year the tax increase is in effect. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits for North Dakota from the Cigarette Tax Rate Increase	
Percent decrease in youth (under age 18) smoking:	13.5%
Youth under age 18 kept from becoming adult smokers:	3,700
Reduction in young adult (18-24 years old) smokers:	900
Current adult smokers who would quit:	4,400
Premature smoking-caused deaths prevented:	2,200
5-Year reduction in the number of smoking-affected pregnancies and births:	600
5-Year health care cost savings from fewer smoking-caused lung cancer cases:	\$840,000
5-Year health care cost savings from fewer smoking-affected pregnancies and births:	\$1.74 million
5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:	\$1.50 million
5-Year Medicaid program savings for the state:	\$600,000
Long-term health care cost savings from adult & youth smoking declines:	\$170.26 million

12.19.17 ACS CAN / January 11, 2018

- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenue).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state additional revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, smokeless tobacco, or other tobacco products taxed at a lower rate. To parallel the new \$1.69 per pack cigarette tax, the state's new OTP tax rate should be 38% of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

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Explanations & Notes

Health care costs listed at the top of the page are from the U.S. Centers for Disease Control and Prevention (CDC). Annual health care expenditures in North Dakota directly caused by tobacco use are in 2009 dollars and are from the CDC's 2014 *Best Practices for Comprehensive Tobacco Control Programs*.

Projections are based on research findings that nationally, each 10% increase in the retail price of cigarettes reduces youth smoking by 6.5%, young adult prevalence by 3.25%, adult prevalence by 2%, and total cigarette consumption by about 4% (adjusted down to account for tax evasion effects). However, the impact of the tax increase may vary from state-to-state, based on the starting pack price. Significant tax increases generate new revenues because the higher tax rate per pack brings in more new revenue than is lost from the tax-related drop in total pack sales.

The projections also incorporate the effect of ongoing background smoking declines, population distribution, and the continued impact of any recent state cigarette tax increases or other changes in cigarette tax policies on prices, smoking levels, and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states, including sales on tribal lands. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, <https://www.tobaccofreekids.org/assets/factsheets/0274.pdf>.

Projected numbers of youth prevented from smoking and dying are based on all youth ages 17 and under alive today. Projected reduction in young adult smokers refers to young adults ages 18-24 who would not start smoking or would quit as a result of the tax increase. Savings to state Medicaid programs include estimated changes in enrollment resulting from federal laws in effect as of December 2017 and state decisions regarding Medicaid expansion. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2018 dollars.

Projections for cigarette tax increases much higher than \$1.00 per pack are limited, especially for states with relatively low current tax rates, because of the lack of research on the effects of larger cigarette tax increase amounts on consumption and prevalence. Projections for cigarette tax increases much lower than \$1.00 per pack are also limited because small tax increases are unlikely to produce significant public health benefits.

Ongoing reductions in state smoking rates will, over time, gradually erode state cigarette tax revenues, in the absence of any new rate increases. However, those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can drop sharply during recessions. In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused health care and other costs over time. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <https://www.tobaccofreekids.org/assets/factsheets/0303.pdf>.

The projections in the table on this fact sheet were generated using an economic model developed jointly by the Campaign for Tobacco-Free Kids (TFK) and the American Cancer Society Cancer Action Network (ACS CAN) and are updated annually. The projections are based on economic modeling by researchers with Tobacconomics: Frank Chaloupka, Ph.D., John Tauras, Ph.D., and Jidong Huang, Ph.D. at the Institute for Health Research and Policy at the University of Illinois at Chicago, and Michael Pesko, Ph.D., at Georgia State University. The state Medicaid cost savings projections, when available, are based on enrollment and cost estimates by Matt Broaddus at the Center on Budget and Policy Priorities using data from the Centers for Medicare and Medicaid Services.

For other ways states can increase revenues (and promote public health) beyond just raising cigarette tax rates, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <https://www.tobaccofreekids.org/assets/factsheets/0357.pdf>.

Additional information and resources to support tobacco tax increases are available at:

<https://www.tobaccofreekids.org/what-we-do/us/state-tobacco-taxes/fact-sheets>

<http://acscan.org/tobacco/taxes/>

<http://tobacconomics.org/>

For more on sources and calculations, see <https://www.tobaccofreekids.org/assets/factsheets/0281.pdf> or www.acscan.org/tobaccotaxexplanations.

Ann Boonn, Campaign for Tobacco-Free Kids
Frank J. Chaloupka, Tobacconomics
Katie McMahon, American Cancer Society Cancer Action Network



KEY STATE-SPECIFIC TOBACCO-RELATED DATA & RANKINGS

State	Adult Smoking Rate	Adult Smoking Rank (1=low)	Pregnant Smoking Rate ^e	Youth Smoking Rate	New Youth Smokers Per Year	Annual Adult Smoking Deaths (approx.)	Kids Now Alive Who Will Become Smokers	Kids Now Alive Who Will Die From Smoking	Smoking Caused Health Costs (millions)	Cigarette Tax (per pack)	Cigarette Tax Rank (1 = high)	FY 2019 Funding for State TC Programs (millions)	Tobacco Prevention Spending % of CDC Target
All States	14.0%	///	7.2%	7.6%	117,000	480,000	17+ mill.	5.6 mill.	\$170 bill.	\$1.79	///	\$655.0	19.8%
Alabama	20.9%	42nd	10.1%	14.0%	2,200	8,600	336,200	108,000	\$1.88 bill.	\$0.675	41st	\$2.1	3.7%
Alaska	21.0%	43rd	11.5%	10.9%	200	600	43,600	14,000	\$438	\$2.00	16th	\$9.1	89.4%
Arizona	15.6%	17th	4.8%	7.1%	2,400	8,300	359,800	115,000	\$2.38 bill.	\$2.00	16th	\$17.3	26.9%
Arkansas	22.3%	47th	13.9%	13.7%	1,400	5,800	214,700	69,000	\$1.21 bill.	\$1.15	35th	\$12.0	32.7%
California	11.3%	2nd	1.6%	5.4%	9,200	40,000	1,376,800	441,000	\$13.29 bill.	\$2.87	10th	\$250.4	72.0%
Colorado	14.6%	13th	6.2%	7.0%	1,900	5,100	283,200	91,000	\$1.89 bill.	\$0.84	39th	\$23.6	44.6%
Connecticut	12.7%	3rd	4.9%	3.5%	1,100	4,900	175,400	56,000	\$2.03 bill.	\$4.35	2nd	\$0.0	0.0%
Delaware	17.0%	25th	9.1%	6.2%	300	1,400	53,700	17,000	\$532	\$2.10	14th	\$6.3	48.4%
DC	14.4%	10th	2.6%	12.5%	100	800	22,300	7,000	\$391	\$4.50	1st	\$1.9	17.8%
Florida	16.1%	22nd	5.1%	3.6%	5,600	32,300	844,500	270,000	\$8.64 bill.	\$1.339	31st	\$70.4	36.3%
Georgia	17.5%	31st	5.3%	12.8%	4,200	11,700	637,500	204,000	\$3.18 bill.	\$0.37	49th	\$0.8	0.7%
Hawaii	12.8%	4th	3.6%	8.1%	400	1,400	67,000	21,000	\$526	\$3.20	6th	\$4.5	32.9%
Idaho	14.4%	10th	8.7%	9.1%	600	1,800	94,300	30,000	\$508	\$0.57	45th	\$3.6	23.3%
Illinois	15.5%	16th	6.4%	7.6%	4,800	18,300	720,100	230,000	\$5.49 bill.	\$1.98	21st	\$9.1	6.7%
Indiana	21.8%	45th	13.5%	8.7%	3,100	11,100	471,100	151,000	\$2.93 bill.	\$0.995	38th	\$7.5	10.2%
Iowa	17.1%	26th	12.9%	9.9%	1,100	5,100	172,100	55,000	\$1.28 bill.	\$1.36	30th	\$4.0	13.4%
Kansas	17.4%	30th	10.2%	7.2%	1,200	4,400	191,200	61,000	\$1.12 bill.	\$1.29	33rd	\$0.8	3.0%
Kentucky	24.6%	50th	18.4%	14.3%	2,500	8,900	371,700	119,000	\$1.92 bill.	\$1.10	36th	\$3.8	6.7%
Louisiana	23.1%	49th	6.8%	12.3%	2,000	7,200	307,400	98,000	\$1.89 bill.	\$1.08	37th	\$5.4	9.0%
Maine	17.3%	29th	14.1%	8.7%	500	2,400	84,300	27,000	\$811	\$2.00	16th	\$4.8	30.4%
Maryland	13.9%	8th	5.9%	8.2%	1,900	7,500	288,900	92,000	\$2.71 bill.	\$2.00	16th	\$10.5	21.8%
Massachusetts	13.7%	6th	5.2%	6.4%	2,100	9,300	322,300	103,000	\$4.08 bill.	\$3.51	5th	\$4.2	6.3%
Michigan	19.3%	38th	11.7%	10.5%	4,400	16,200	666,500	213,000	\$4.59 bill.	\$2.00	16th	\$1.6	1.5%
Minnesota	14.5%	12th	8.9%	9.6%	2,100	5,900	319,000	102,000	\$2.51 bill.	\$3.04	8th	\$17.3	32.7%
Mississippi	22.2%	46th	10.0%	9.4%	1,400	5,400	213,900	68,000	\$1.23 bill.	\$0.68	40th	\$8.4	23.1%

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State	Adult Smoking Rate	Adult Smoking Rank (1=low)	Pregnant Smoking Rate ^e	Youth Smoking Rate	New Youth Smokers Per Year	Annual Adult Smoking Deaths (approx.)	Kids Now Alive Who Will Become Smokers	Kids Now Alive Who Will Die From Smoking	Smoking Caused Health Costs (millions)	Cigarette Tax (per pack)	Cigarette Tax Rank (1 = high)	FY 2019 Funding for State TC Programs (millions)	Tobacco Prevention Spending % of CDC Target
Missouri	20.8%	41st	15.3%	9.2%	2,600	11,000	398,600	128,000	\$3.03 bill.	\$0.17	51st	\$0.0	0.1%
Montana	17.2%	27th	16.5%	12.1%	300	1,600	59,000	19,000	\$440	\$1.70	24th	\$5.0	34.0%
Nebraska	15.4%	15th	9.8%	7.4%	700	2,500	118,600	38,000	\$795	\$0.64	42nd	\$2.6	12.4%
Nevada	17.6%	33rd	4.0%	6.7%	800	4,100	128,700	41,000	\$1.08 bill.	\$1.80	22nd	\$1.0	3.2%
N. Hampshire	15.7%	18th	11.1%	7.8%	400	1,900	67,900	22,000	\$729	\$1.78	23rd	\$0.1	0.8%
New Jersey	13.7%	6th	3.9%	8.2%	3,000	11,800	445,800	143,000	\$4.06 bill.	\$2.70	11th	\$7.2	7.0%
New Mexico	17.5%	31st	6.5%	10.6%	800	2,600	124,500	40,000	\$844	\$1.66	26th	\$5.7	24.9%
New York	14.1%	9th	4.8%	5.5%	5,800	28,200	873,900	280,000	\$10.39 bill.	\$4.35	2nd	\$39.8	19.6%
North Carolina	17.2%	27th	8.9%	12.1%	3,700	14,200	562,500	180,000	\$3.81 bill.	\$0.45	47th	\$2.8	2.8%
North Dakota	18.3%	34th	12.0%	12.6%	200	1,000	43,400	14,000	\$326	\$0.44	48th	\$5.8	59.5%
Ohio	21.1%	44th	14.4%	15.1%	5,400	20,200	809,800	259,000	\$5.64 bill.	\$1.60	27th	\$13.0	9.8%
Oklahoma	20.2%	40th	11.7%	12.5%	1,800	7,500	275,600	88,000	\$1.62 bill.	\$2.03	15th	\$21.3	50.3%
Oregon	16.1%	22nd	9.5%	7.7%	1,400	5,500	213,400	68,000	\$1.54 bill.	\$1.33	32nd	\$10.0	25.6%
Pennsylvania	18.8%	36th	11.5%	8.7%	5,100	22,000	761,500	244,000	\$6.38 bill.	\$2.60	12th	\$15.5	11.1%
Rhode Island	15.0%	14th	7.4%	6.1%	300	1,800	48,700	16,000	\$640	\$4.25	4th	\$0.4	3.1%
South Carolina	18.8%	36th	9.1%	10.0%	2,100	7,200	322,900	103,000	\$1.90 bill.	\$0.57	45th	\$5.0	9.8%
South Dakota	19.3%	38th	13.6%	10.1%	400	1,300	65,700	21,000	\$373	\$1.53	28th	\$4.5	38.5%
Tennessee	22.6%	48th	13.4%	9.4%	2,600	11,400	391,400	125,000	\$2.67 bill.	\$0.62	43rd	\$0.0	0.0%
Texas	15.7%	18th	3.3%	7.4%	10,400	28,000	1,557,800	498,000	\$8.85 bill.	\$1.41	29th	\$4.2	1.6%
Utah	8.9%	1st	3.0%	3.8%	800	1,300	120,800	39,000	\$542	\$1.70	24th	\$7.0	36.3%
Vermont	15.8%	20th	15.5%	9.3%	200	1,000	31,500	10,000	\$348	\$3.08	7th	\$3.8	45.2%
Virginia	16.4%	24th	6.2%	6.5%	3,100	10,300	469,800	150,000	\$3.11 bill.	\$0.30	50th	\$10.8	11.8%
Washington	13.5%	5th	6.9%	6.3%	2,100	8,300	324,900	104,000	\$2.81 bill.	\$3.025	9th	\$1.5	2.4%
West Virginia	26.0%	51st	25.1%	14.4%	900	4,300	147,900	47,000	\$1.00 bill.	\$1.20	34th	\$0.0	0.0%
Wisconsin	16.0%	21st	11.3%	7.8%	2,200	7,900	332,000	106,000	\$2.66 bill.	\$2.52	13th	\$5.3	9.2%
Wyoming	18.7%	35th	14.6%	15.7%	200	800	37,800	12,000	\$258	\$0.60	44th	\$3.0	35.8%

* MO's FY18 state spending is \$48,500.

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Sources for Table

Adult Smoking Rates. CDC, "Tobacco Product Use Among Adults—United States, 2017," MMWR 67(44): 1225-1232, November 9, 2018, <https://www.cdc.gov/mmwr/volumes/67/wr/pdfs/mm6744a2-H.pdf>. State smoking rates from 2017 Behavioral Risk Factor Surveillance System (BRFSS) data available online: <https://www.cdc.gov/brfss/brfssprevalence/index.html>. Due to changes in CDC's methodology, these state-specific adult smoking rates cannot be compared to data prior to 2011.

Pregnancy and Smoking Data. National and state data from CDC, "Cigarette Smoking During Pregnancy: United States, 2016." *NCHS Data Brief*, 305, February 2018, <https://www.cdc.gov/nchs/data/databriefs/db305.pdf>.

Youth Smoking Rates. National rate from the 2017 National Youth Tobacco Survey (NYTS). State youth smoking rates from most recent years available; in **bold** type from the Youth Risk Behavioral Surveillance (YRBS); in regular type from Youth Tobacco Surveillance (YTS); and in *italics* from state-specific surveys. OR data are for 11th grade only. WA data are for 10th grade only. Because of different surveys and years, state rankings based on youth smoking cannot be done.

New Regular Daily Smokers Each Year. Estimate based on U.S. Dept of Health & Human Services (HHS), Substance Abuse and Mental Health Services Administration (SAMHSA), HHS, *Results from the 2017 National Survey on Drug Use and Health, NSDUH: Detailed Tables*, 2017. <https://www.samhsa.gov/data/sites/default/files/cbhsq-reports/NSDUHDetailedTabs2017/NSDUHDetailedTabs2017.pdf>. State-specific numbers based on each state's share of the national number.

Smoking-Caused Deaths. Includes deaths caused by cigarette smoking but not deaths caused by other forms of combustible tobacco or smokeless tobacco products, which are expected to be in the thousands per year. National data includes deaths attributable to exposure to secondhand smoke; state-specific data do not. HHS, *The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General*, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress>. State estimates of smoking-attributable deaths: CDC, *Best Practices for Comprehensive Tobacco Control Programs—2014*, http://www.cdc.gov/tobacco/stateandcommunity/best_practices/. **Projected youth smoking deaths.** HHS, *The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General*, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress>.

Kids Who Will Become Smokers. HHS, *The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General*, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress>.

Smoking-Caused Health Care Costs. CDC, *Best Practices for Comprehensive Tobacco Control Programs—2014*, http://www.cdc.gov/tobacco/stateandcommunity/best_practices/. See also Xu, X., et al., "Annual Healthcare Spending Attributable to Cigarette Smoking: An Update," *Am J Prev Med*, 2014. State estimates in 2009 dollars; national estimate in 2010 dollars. Health costs do not include estimated annual costs from lost productivity due to premature death and exposure to secondhand smoke. For other non-health care smoking-caused costs, see, e.g., U.S. Department of the Treasury, *The Economic Costs of Smoking in the U.S. and the Benefits of Comprehensive Tobacco Legislation*, 1998; Chaloupka, FJ & Warner, KE, "The Economics of Smoking," in Culyer, A & Newhouse, J (eds), *The Handbook of Health Economics*, 2000; Leistikow, BN, et al., "Estimates of Smoking-Attributable Deaths at Ages 15-54, Motherless or Fatherless Youths, and Resulting Social Security Costs in the United States in 1994," *Preventive Medicine* 30:353-60, 2000.

State Cigarette Tax Rates. Tax rates and state average in effect as of 1/1/2019. Orzechowski & Walker, *Tax Burden on Tobacco*, 2017 [annual report funded by the three major cigarette companies] with updates from media reports, state revenue offices. Tax rates shown in **bold** have not been increased for at least 10 years (since 2009 or earlier). "All states" is the state tax average.

State Spending to Prevent and Reduce Tobacco Use. Campaign for Tobacco-Free Kids, et al., *Broken Promises to Our Children: A State-by-State Look at the 1998 State Tobacco Settlement 20 Years Later*, December 14, 2018, <http://tfk.org/statereport>. CDC recommendations for the amounts states should spend to prevent and reduce tobacco use from CDC, *Best Practices for Comprehensive Tobacco Control—2014*, http://www.cdc.gov/tobacco/stateandcommunity/best_practices/.

Campaign for Tobacco-Free Kids, December 21, 2018 / Laura Bach

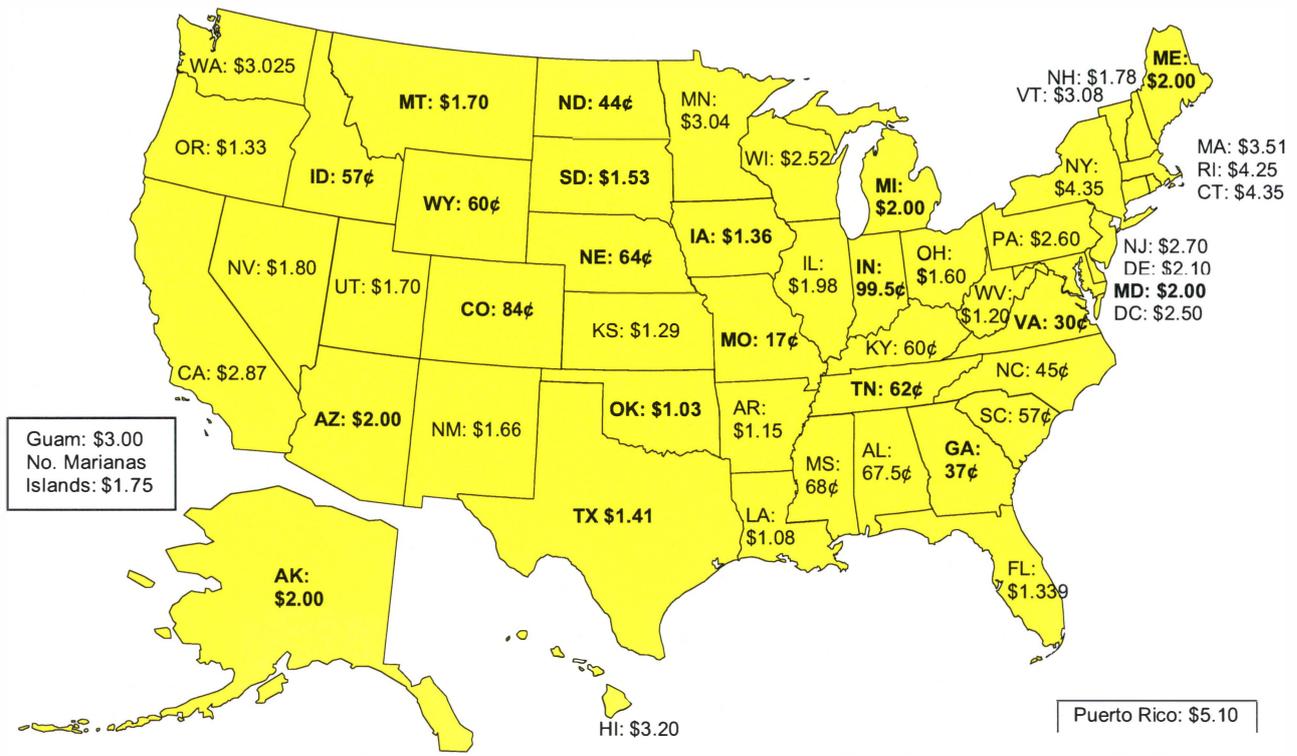
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MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: \$1.72 per Pack



Map shows state cigarette tax rates and state average currently in effect. The states in bold have not increased their tax for at least 10 years (since 2008 or earlier). Currently, 35 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of \$1.00 per pack or higher; 18 states, DC, Puerto Rico, and Guam have cigarette tax rates of \$2.00 per pack or higher; eight states, Puerto Rico, and Guam have cigarette tax rates of \$3.00 per pack or higher; three states and Puerto Rico have cigarette tax rates of \$4.00 per pack or higher; and Puerto Rico has a cigarette tax rate higher than \$5.00. The state average listed above does not include any of the U.S. territories. Federal cigarette tax is \$1.01 per pack. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago (\$1.18), Cook County, IL (\$3.00), New York City (\$1.50), Philadelphia (\$2.00), Aspen, CO (\$3.00) and Juneau, AK (\$3.00). Nationally, estimated smoking-caused health costs and lost productivity totals \$19.16 per pack.

Campaign for Tobacco-Free Kids, January 12, 2018 / Ann Boonn

For more information on state cigarette taxes and the benefits from increasing them, see <https://tobaccofreekids.org/fact-sheets/tobacco-control-policies/tobacco-taxes>.



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STATE CIGARETTE EXCISE TAX RATES & RANKINGS

Average State Cigarette Tax: \$1.79 per pack

State	Tax	Rank
Alabama	\$0.675	41st
Alaska	\$2.00	16th
Arizona	\$2.00	16th
Arkansas	\$1.15	35th
California	\$2.87	10th
Colorado	\$0.84	39th
Connecticut	\$4.35	2nd
Delaware	\$2.10	14th
DC	\$4.50	1st
Florida	\$1.339	31st
Georgia	\$0.37	49th
Hawaii	\$3.20	6th
Idaho	\$0.57	45th
Illinois	\$1.98	21st
Indiana	\$0.995	38th
Iowa	\$1.36	30th
Kansas	\$1.29	33rd
Kentucky	\$1.10	36th

State	Tax	Rank
Louisiana	\$1.08	37th
Maine	\$2.00	16th
Maryland	\$2.00	16th
Massachusetts	\$3.51	5th
Michigan	\$2.00	16th
Minnesota	\$3.04	8th
Mississippi	\$0.68	40th
Missouri	\$0.17	51st
Montana	\$1.70	24th
Nebraska	\$0.64	42nd
Nevada	\$1.80	22nd
New Hampshire	\$1.78	23rd
New Jersey	\$2.70	11th
New Mexico	\$1.66	26th
New York	\$4.35	2nd
North Carolina	\$0.45	47th
North Dakota	\$0.44	48th
Ohio	\$1.60	27th

State	Tax	Rank
Oklahoma	\$2.03	15th
Oregon	\$1.33	32nd
Pennsylvania	\$2.60	12th
Rhode Island	\$4.25	4th
South Carolina	\$0.57	45th
South Dakota	\$1.53	28th
Tennessee	\$0.62	43rd
Texas	\$1.41	29th
Utah	\$1.70	24th
Vermont	\$3.08	7th
Virginia	\$0.30	50th
Washington	\$3.025	9th
West Virginia	\$1.20	34th
Wisconsin	\$2.52	13th
Wyoming	\$0.60	44th
Puerto Rico	\$5.10	NA
Guam	\$4.00	NA
Northern Mariana Isl.	\$3.75	NA

Table shows all cigarette tax rates currently in effect. Since 2002, 48 states and the District of Columbia have increased their cigarette tax rates 136 times. The states in bold have not increased their tax for at least 10 years (since 2009 or earlier). Currently, 36 states, DC, Puerto Rico, Northern Mariana Islands, and Guam have cigarette tax rates of \$1.00 per pack or higher; 19 states, DC, Puerto Rico, Northern Mariana Islands, and Guam have cigarette tax rates of \$2.00 per pack or higher; eight states, DC, Puerto Rico, Northern Mariana Islands, and Guam have cigarette tax rates of \$3.00 per pack or higher; three states, DC, Puerto Rico, and Guam have cigarette tax rates of \$4.00 per pack or higher; and Puerto Rico has a cigarette tax rate higher than \$5.00. States' average includes DC, but not Puerto Rico, other U.S. territories, or local cigarette taxes. The median tax rate is \$1.66 per pack. AK, MI, MN, MS, TX, and UT also have special taxes or fees on brands of manufacturers not participating in the state tobacco lawsuit settlements (NPMs).

The highest combined state-local tax rate is \$6.16 in Chicago, IL, with New York City second at \$5.85 per pack. Other high state-local rates include Evanston, IL at \$5.48 and Juneau, AK at \$5.00 per pack. For more information on local cigarette taxes, see: <http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf>.

Federal cigarette tax is \$1.01 per pack. From the beginning of 1998 through 2002, the major cigarette companies increased the prices they charge by more than \$1.25 per pack (but also instituted aggressive retail-level discounting for competitive purposes and to reduce related consumption declines). In January 2003, Philip Morris instituted a 65-cent per pack price cut for four of its major brands, to replace its retail-level discounting and fight sales losses to discount brands, and R.J. Reynolds followed suit. In the last several years, the major cigarette companies have increased their product prices by almost \$1.00 per pack. **Nationally, estimated smoking-caused health costs and lost productivity totals \$19.16 per pack.**

The weighted average price for a pack of cigarettes nationwide is roughly \$6.26 (including statewide sales taxes but not local cigarette or sales taxes, other than NYC's \$1.50 per pack cigarette tax), with considerable state-to-state differences because of different state tax rates, and different manufacturer, wholesaler, and retailer pricing and discounting practices. AK, DE, MT, NH & OR have no state retail sales tax at all; OK has a state sales tax, but does not apply it to cigarettes; MN & DC apply a per-pack sales tax at the wholesale level; and AL, GA & MO (unlike the rest of the states) do not apply their state sales tax to that portion of retail cigarette prices that represents the state's cigarette excise tax.

Campaign for Tobacco-Free Kids, December 21, 2018 / Ann Boonn

For additional information see the Campaign's website at <https://tobaccofreekids.org/fact-sheets/tobacco-control-policies/tobacco-taxes>. Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2016; media reports; state revenue department websites.



ND Petroleum Marketers Association
ND Retail Association



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Testimony- HB 1450

January 22, 2019 - House Finance and Tax Committee

Chairman Headland and Members of the House Finance and Tax Committee:

For the record, I'm Mike Rud, President of the North Dakota Petroleum Marketers Association. On behalf of NDPMA and its 400 members and their 700 retail outlets, I stand before you urging a **"DO NOT PASS" recommendation on HB 1450.**

Tax increases often result in negative, unintended consequences. In North Dakota, a \$0.40 increase in the cigarette excise tax would harm the economy, retailers, and adult tobacco consumers. This proposed tax increase will weaken the state's economy by suppressing consumer spending, putting a strain on household budgets and curbing retailer sales. Increasing the excise tax could hurt retailers simply trying to sell a legal product to adult customers.

We all know cigarette excise taxes are regressive in nature because of the severe negative economic impact they tend to have on low-income adult smokers. The Center for Disease Control and Prevention estimates roughly one-third of the adult smokers in ND earn less than \$15,000 annually. Only 15% of adults who earn \$50,000 or more a year are smokers. Raising taxes higher will further burden low income workers.

In Fiscal Year 2018, adult smokers in North Dakota paid \$11 8.7 million in federal, state, and local taxes and fees on cigarettes. Adult smokers do not deserve another tax increase.

An excise tax increase could provide incentives for smuggling and other contraband activities, resulting in lost tax revenues. In 2014, the Bureau of Alcohol, Tobacco, Firearms, and Explosives said "\$7 billion to \$10 billion in state and federal tax revenue is lost each year because of [cigarette] smuggling, up from \$5 billion a few years ago.

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Contrary to what some might believe, North Dakota retailers don't stand in the driveway or on the storeroom floor attempting to sell tobacco products. Like the food, pop and candy we sell tobacco is a legal product. We simply attempt to meet consumer demand.

NDPMA doesn't support sin taxes. **It urges a DO NOT PASS recommendation on HB 1450!**