

Tobacco Tax Increase: Raise the Tax or Bear the Burden

Executive Summary

In the 2009 regular legislative session, House Bill 889 proposes significantly raising tobacco taxes in Louisiana. The goals of this legislation are to make Louisiana a healthier state by reducing the incidence of smoking, while also producing much-needed revenue. Adopting this measure would make sense, especially if the \$92 million it would raise is used to fund Investing in Early Childhood: A Road Map to Economic Success for Louisiana – a plan by the Louisiana Partnership for Children and Families, which can be found on their website, <http://www.lapartnership.org>.

Increasing the Tobacco Tax in Louisiana

During the current legislative session, Representative Karen Carter Peterson is sponsoring the Louisiana Healthier Families Act, House Bill 889, with 18 other legislators, including the President of the Senate, Senate President Pro Tempore, and three Republican House Representatives. The bill will raise Louisiana’s cigarette tax to 86 cents a pack from 36 cents, and increase the tax on all other tobacco products up to 30 percent. Currently, smokeless tobacco is taxed at 20 percent of manufacturer’s net invoice and cigars range from 8-20 percent of the manufacturer’s net invoice. This piece of legislation has two purposes: first, to improve health outcomes in Louisiana by reducing the incidence of smoking; and, second, to provide the state with \$92 million in additional revenues. Louisiana’s cigarette tax was last increased in 2002, when it rose to 36 cents a pack from 24 cents.

Improving Health Outcomes

Table 1

State Health Rankings

Rank	State	
1	Vermont	<p>Nearly 6,500 Louisiana citizens die each year due to tobacco related causes, according to the Coalition for a Tobacco Free Louisiana. The Campaign for Tobacco-Free Kids has found that for every 10 percent that cigarette prices are increased, youth smoking is reduced by about 7 percent and overall smoking is reduced by about 4 percent. ¹</p> <p>Some 25 percent of Louisiana high school youth smoke roughly 13 million packs of cigarettes annually, according to the Coalition, and there has been no significant decrease in youth smoking since 2003. Approximately 90 percent of regular smokers begin smoking by the age 18. A \$1 per pack increase in Louisiana’s tobacco tax is expected by the Coalition to reduce tobacco consumption use by 26,600 fewer adult smokers and 48,800 fewer youth smokers. In addition, the \$1 tax increase is expected by the Coalition to reduce the youth smoking rate by 16.3 percent -- preventing 22,600 individuals 18 years and younger from dying of tobacco-related deaths. ²</p>
2	Hawaii	
	New	
3	Hampshire	
4	Minnesota	
5	Utah	
6	Massachusetts	
7	Connecticut	
8	Idaho	
9	Maine	
10	Washington	
11	Rhode Island	
12	North Dakota	
13	Nebraska	
14	Wyoming	

Rank	State
15	Iowa
16	Oregon
17	Wisconsin
18	New Jersey
19	Colorado
20	Virginia
21	South Dakota
22	Kansas
23	Montana
24	California
25	New York
26	Maryland
27	Michigan
28	Pennsylvania
29	New Mexico
30	Alaska
31	Illinois
32	Ohio
33	Arizona
34	Indiana
35	Delaware
36	North Carolina
37	Kentucky
38	Missouri
39	West Virginia
40	Alabama
41	Georgia
42	Nevada
43	Arkansas
44	Oklahoma
45	Florida
46	Texas
47	Tennessee
48	South Carolina
49	Mississippi
50	Louisiana

Note: Data collected from United Health Foundation

Increasing the tobacco tax is a popular way to raise revenues because it discourages smoking. At the same time, the revenue it generates is not a stable source of funding over the long term. Increases in tobacco taxes will not grow with the economy because, if the increase in tobacco tax is successful in reducing the rate of smokers then over time, the revenue provided by the tax will decline.

However, with Louisiana facing serious revenue losses due to the impact of the national recession and also confronted with major health problems, the proposed tobacco tax increase would at least provide some important help.

Ideally, revenues that the tobacco tax would produce would go to programs that have the potential to improve health outcomes in the state, such as tobacco cessation, biomedical research and cancer screenings and research. House Bill 889 does not mandate that the money from the tax increase go to any specific purpose. A logical way to use the new money would be to fund the Investing in Early Childhood: A Road Map to Economic Success for Louisiana, a plan that outlines steps Louisiana should take to help the state’s children become successful adults. Additional revenue should specifically go toward two preventive provisions in the Road Map. The first is the prevention of premature births by extending healthcare coverage for pregnant women with family annual incomes no more than twice the rate of poverty (\$36,620 for a family of three), who are at high-risk for preterm births. This not only has the potential to reduce Louisiana’s infant mortality rate, but also to improve the lives of those children who otherwise would have been born prematurely.

The second provision is the expansions of the Nurse-Family Partnership (NFP) program from 15% to 20% of eligible women with annual family income no more than twice the rate of poverty. There are several benefits of NFP including improved pregnancy outcomes, increased family self-sufficiency, and enhanced child health and

development for low- income families. These two provisions will cost the state \$27.5 million annually, which can be financed by the estimated \$92 million revenue of this tax increase. The remainder of the funds generated by HB 889 should be used to pay for existing tobacco cessation programs. As citizens quit using tobacco products and youth do not begin, reduced health care costs are a further benefit of this tax.

The nonprofit United Health Foundation in 2008 published “America’s Health Rankings” and listed Louisiana last among all the states in terms of health outcomes. The rankings are based on such factors as the length of life, disparity among outcomes in a state, infant mortality, cardiovascular deaths, premature death, and cancer deaths. Of particular relevance to the smoking issue, Louisiana ranked 45th in cardiovascular deaths per 100,000 populations and 49th in cancer deaths. A reduction in smoking could positively affect such health outcome indicators.

Table 2

State Cigarette Excise Taxes

Rank	State	Tax
1	Rhode Island	\$3.46
2	New York	\$2.75
3	Hawaii	\$2.60
4	New Jersey	\$2.58
5	Massachusetts	\$2.51
6	Washington	\$2.025
6	Alaska	\$2.00
6	Arizona	\$2.00
6	Connecticut	\$2.00
6	Maine	\$2.00
6	Maryland	\$2.00
6	Michigan	\$2.00
13	Vermont	\$1.99
14	Wisconsin	\$1.77
15	Montana	\$1.70
16	South Dakota	\$1.53
17	Minnesota	\$1.504
18	Texas	\$1.41
19	Iowa	\$1.36
20	Pennsylvania	\$1.35
21	Florida	\$1.339
22	New Hampshire	\$1.33
23	Ohio	\$1.25
24	Oregon	\$1.18
24	Arkansas	\$1.15
26	Delaware	\$1.15
27	Oklahoma	\$1.03
28	Indiana	\$0.995
29	Illinois	\$0.98
30	New Mexico	\$0.91
31	California	\$0.87
32	Colorado	\$0.84
33	Nevada	\$0.80
34	Kansas	\$0.79
35	Utah	\$0.695
36	Mississippi	\$0.680
37	Nebraska	\$0.64
37	Tennessee	\$0.62
39	Wyoming	\$0.60
40	Kentucky	\$0.60
41	Idaho	\$0.57
42	West Virginia	\$0.55
43	North Dakota	\$0.44
44	Alabama	\$0.425

Today, only six states have cigarette taxes lower than Louisiana’s. The state would not be alone if it raised its tax this year. The federal government increased its cigarette tax to \$1.01 a pack from 39 cents on March 31. The additional money will be used for the State Children’s Health Insurance Program (SCHIP). In Louisiana this will mean about 82,100 additional children will have health coverage. So far this year, four states have increased tobacco taxes: Arkansas to \$1.15 a pack from 59 cents; Mississippi to 68 cents from 18 cents; Kentucky to 60 cents from 30 cents; and in Florida to \$1.339 from 33.9 cents.³

Impact on Convenience Stores, Retail Stores, and the Economy

According to the Campaign for Tobacco-Free Kids, an increase in tobacco taxes will not directly impact revenues that convenience store and retailers produce. The discretionary money that was spent by a smoker who quits due to the increase in tobacco tax can now be spent on other items and services. Often this discretionary money is spent on non-tobacco related items in convenience and retail stores, therefore not reducing their overall profits. After Maryland had a 34 cent increase on cigarettes the state’s Comptroller conducted a study that examined the state’s retailer’s gross revenues. The study found that there was no indication that the increase in tobacco taxes had a direct or substantial impact on the retailer’s gross revenues. ⁴

Several studies have been conducted examining the impact that tobacco tax increases will have on employment and the economy. A study that was conducted in Michigan found that there will be an increase in employment when there is a reduction or elimination of spending on tobacco-related products. ⁵ A study completed in New Hampshire found that a \$1.00 increase in tobacco taxes would result in 180 new jobs in retail, and an increase in cigarette sales caused a decrease in retail employment. ⁶

Conclusion

The current economic situation and the serious challenges facing Louisiana’s healthcare system argue for the proposed 50 cents pack increase in the state cigarette tax and the other tobacco tax increases in House Bill 889.

Rank	State	Tax
45	Georgia	\$0.37
46	Louisiana	\$0.36
47	North Carolina	\$0.35
48	Virginia	\$0.30
49	Missouri	\$0.17
50	South Carolina	\$0.07

Note: Data collected from Campaign for Tobacco Free- Kids

As acknowledged, the disproportionate impact on lower income citizens makes excise taxes one of the least fair ways to raise revenue. One way to mitigate this would be to use some of the money from a tobacco tax increase to expand Louisiana’s Earned Income Tax Credit program so that lower income residents get a bigger break from income taxes. This work signals challenges inherent in Louisiana’s existing tax structure and presents further

questions regarding how the state moves toward comprehensive tax reform. Structuring Louisiana’s tax code to both produce more revenue and meet the state’s growing needs should be conducted in a manner with increased attention to a balanced impact on all citizens that the current system does not feature.

In the meantime, it is worth noting that each Louisiana household today bears a burden of \$628 because of smoking-caused government expenditures. Raising the tax on tobacco products would at least transfer this responsibility from non-smokers to those who choose to smoke. Immediate health benefits to low income citizens is a further compelling reason to advance this tax in accordance with the suggested investments of revenue.

Tobacco related illnesses and deaths are preventable. The Louisiana Healthier Families Act, House Bill 889, is a valuable opportunity to enact an initiative that, all things considered, would benefit the state.

About the Louisiana Budget Project

Louisiana Association of Nonprofit Organizations formed the Louisiana Budget Project (LBP) in 2006 to increase public awareness of, information on and input into the state budget preparation process. The LBP monitors and reports on state government spending and how it affects Louisiana’s low- to moderate-income families.

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¹ Orzechowski W. and R.C. Walker, *Tax Burden on Tobacco*, 2007; Media Reports.

² Coalition for a Tobacco Free Louisiana; See <http://tobaccofreeliving.org/home/section/2/> (Last accessed 3/20/2009).

³ National Conference of State Legislatures. 2008. FY 2010 Actions & Proposals to Balance the Budget: Selective Taxes. Online. <http://www.ncsl.org/programs/fiscal/FY2010SelectiveTaxes.htm>. Accessed on 16 April 2009.

⁴ Schafer, William D., Comptroller of the State of Maryland, Report to the Senate President and the Speaker of the House of Delegates, January 15, 2003, <http://tobaccofreekids.org/reports/prices/MarylandReport.pdf>.

⁵ Warner K., et al., “Employment implications of declining tobacco product sales for the regional economies of the United States,” JAMA 275(16):1241-6, <http://jama.ama-assn.org/cgi/content/abstract/275/16/1241> , April 24, 1996.

⁶ Gottlob, B., *The Fiscal and Economic Impacts of Increasing the Cigarette Tax in New Hampshire*, PolEcon Research, March 2003, <http://tobaccofreekids.org/reports/prices/NewHampshireReport.pdf> .