

Tobacco Tax Increase for Health-Related Purposes

1 The proposed amendment to the Colorado Constitution:

- 2 ♦ increases the tax on a pack of cigarettes by 64 cents;
- 3 ♦ increases the tax on tobacco products other than cigarettes from 20 percent
4 to 40 percent of the price;
- 5 ♦ specifies how the new tax revenue is to be used;
- 6 ♦ excludes the new tax revenue from state revenue and spending limits and
7 local government revenue limits; and
- 8 ♦ allows the legislature, by a two-thirds vote, to declare a state fiscal
9 emergency and to use all of the new revenue for any health-related purpose
10 for up to one budget year.

11 Background

12 ***Cigarette taxes.*** Cigarette taxes are levied by the federal government and all 50
13 states. The federal tax rate on cigarettes is 39 cents per pack. State tax rates range from
14 a low of 19 cents per pack in Kentucky to a high of \$2.38 per pack in New Jersey. The
15 national average is 91 cents per pack. Colorado's cigarette tax rate is 20 cents per pack
16 and is the second lowest tax in the country.

17 ***Tobacco products taxes.*** Taxes on non-cigarette tobacco products are levied on
18 cigars, pipe tobacco, snuff, and chewing tobacco by the federal government and 47
19 states. The federal government levies its tax according to weight. The states use tax
20 rates based on weight or a percentage of price. The tobacco products tax rate in
21 Colorado is 20 percent of the price.

22 ***History of tobacco taxes in Colorado.*** In 1964, the state established a tax on
23 cigarettes at the rate of 3 cents per pack. Prior to the state cigarette tax and through
24 1972, many local governments also levied cigarette taxes. In 1973, the state raised the
25 tax on cigarettes to 10 cents per pack and gave local governments the option of receiving
26 a portion of state cigarette taxes or levying their own tax. No local government has
27 levied a tax since. In 1986, Colorado's cigarette tax was raised to its current rate of 20
28 cents per pack, and the tobacco products tax of 20 percent of the price was enacted.

Current tobacco tax revenues. Colorado's current cigarette and tobacco products taxes generated approximately \$64.8 million last year. About one-quarter of this amount is sent to local governments statewide. The remaining three-quarters is deposited into the state's bank account to help pay for state programs.

Current state health-related programs. In the current budget year, the state will spend about \$3.0 billion for its largest low-income health care programs, \$13.1 million for tobacco education programs, and \$141.2 million for a variety of prevention programs.

Tobacco tax revenues and health-related programs under the proposal. Collection of the new tobacco taxes would begin on January 1, 2005. The proposal is expected to raise an additional \$161.1 million annually. Of this amount, \$156.3 million goes to targeted health care programs and \$4.8 million can be spent by the state and local governments on any health-related program. Table 1 shows how the new revenue is required to be spent.

Table 1. Distribution of New Tax Revenue

Percentage	Purpose	Annual Estimated Distribution
46%	to increase the number of low-income children, pregnant women, and other adults served by state health care programs	\$74.1 million
19%	to pay for health care services at community health centers statewide or other providers where at least half of the patients served either do not have health insurance or are covered by one of the state's low-income health care programs	\$30.6 million
16%	for school, community, and statewide education programs intended to reduce the number of children and adults who smoke and reduce the community's exposure to second-hand smoke	\$25.8 million
16%	to prevent, detect, and treat cancer, heart, and lung diseases	\$25.8 million
3%	to be used by the state and local governments for any health-related purpose	\$4.8 million

Arguments For

1) The new taxes will help low-income children and adults receive health care that they could not otherwise afford. An estimated 500,000 to 700,000 Coloradans do not have health insurance, including 170,000 children. Individuals without health insurance often have greater health problems than those with health insurance. The state will insure more low-income individuals under this proposal.

1 2) Raising tobacco taxes will deter youth from becoming addicted to tobacco
2 products. Almost all adult smokers started smoking when they were teenagers. In
3 Colorado, 10,800 children under the age of 18 start smoking every year. Studies have
4 shown that as the price of tobacco products rises, an increasing number of youth will
5 stop, or never start, using tobacco products. The proposal will also discourage youth
6 from using tobacco products by funding programs that educate children about the
7 dangers of tobacco use.

8 3) Colorado taxpayers pay millions of dollars each year in preventable tobacco-
9 related health care costs. The proposal will provide money to treat individuals who have
10 tobacco-related illnesses and will lower future tobacco-related health care costs by
11 reducing tobacco use throughout the state. Tobacco use is the leading cause of
12 preventable death in Colorado, killing 4,200 Coloradans each year. Annual health care
13 costs in Colorado directly related to smoking are more than \$1.0 billion. Every year,
14 \$249 million in taxpayer dollars go to treat individuals with tobacco-related illnesses in
15 the state's low-income health insurance program.

16 **Arguments Against**

17 1) The proposal raises taxes and increases the size and cost of government.
18 Colorado smokers and tobacco-users will pay 320 percent more in state cigarette taxes
19 and 100 percent more in state taxes on other tobacco products to fund state health care
20 programs. This would increase taxes for a one-pack-a-day smoker by \$234 each year.
21 A 1998 lawsuit settlement between the states and the cigarette industry has already
22 increased the size of government with money from smokers. Since the settlement,
23 government spending on health-related purposes and other programs has risen by \$485
24 million and cigarette prices have increased more than 89 percent.

25 2) The tax increase may cause additional hardship to low-income families in
26 Colorado. The Centers for Disease Control and Prevention has found that people living
27 in poverty are 48 percent more likely to smoke than those not living in poverty. The tax
28 takes a much larger bite out of low-income people's budgets than wealthy people's
29 budgets.

30 3) Funding for health care may not increase. The proposal requires that the new
31 taxes be used to expand current state health care programs, but this may not happen.
32 This year, the legislature passed a bill that could result in the new tax money being spent
33 on current programs, rather than expanded programs. Smokers would be paying much
34 higher taxes, but nobody would be receiving any additional health care services or help
35 in quitting smoking.

1 **Estimate of Fiscal Impact**

2 The proposal will raise about \$156.3 million in new revenue for health care
3 programs and \$4.8 million for the state and local governments in the 2005-06 budget
4 year. Additionally, the state will incur a one-time cost of \$3,500 for computer
5 programming changes to track the new revenue.