

Final Draft with Responses

Tobacco Tax Increase for Health-Related Purposes

1 The proposed amendment to the Colorado Constitution:

- 2 ♦ increases the tax on a pack of cigarettes from 20 cents to 84 cents;
- 3 ♦ increases the tax on tobacco products other than cigarettes from 20 percent
4 to 40 percent of the price;
- 5 ♦ specifies that the new tax revenue is to be used for health care services and
6 tobacco education and cessation programs;
- 7 ♦ requires the legislature to maintain current funding levels for existing health-
8 related programs and to use the new revenue only to expand these programs;
- 9 ♦ excludes the new tax revenue from state revenue and spending limits and
10 local government revenue limits; and
- 11 ♦ allows the legislature, by a two-thirds vote, to declare a state fiscal
12 emergency and to use all of the new revenue for any health-related purpose
13 for up to one budget year.

14 Background

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

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

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

1 pack, and the tobacco products tax of 20 percent of the price was enacted. The proposal
2 prohibits the legislature from reducing these taxes in the future.

3 ***Current tobacco tax revenues.*** Colorado collected about \$64.8 million from
4 cigarette and tobacco products taxes last year. About one-quarter of this amount is sent
5 to local governments statewide to use as they see fit. The remaining three-quarters is
6 deposited into the state's bank account, along with other state taxes, to pay for state
7 programs.

8 ***Current state health-related programs.*** In the current budget year, the state will
9 spend about \$3.0 billion to provide health care to low-income individuals, \$4.3 million
10 for programs on the dangers of tobacco use, and \$141.2 million for a variety of
11 prevention programs run by the state health department.

12 ***Distribution of tobacco tax revenues under the proposal.*** Collection of the new
13 tobacco taxes would begin on January 1, 2005. The proposal is expected to raise an
14 additional \$175 million annually. Of this amount, \$169.8 million goes to targeted health
15 care programs and \$5.2 million can be spent by the state and local governments on
16 health-related programs of their choosing. Table 1 shows how the new revenue is
17 required to be spent.

18 **Table 1. Distribution of New Tax Revenue**

19	Percentage	Purpose	Annual Estimated Distribution
20	46%	to increase the number of low-income children and their parents, pregnant women, and other adults served by state health care programs	\$80.5 million
21	19%	to pay for health care services at clinics or hospitals where at least half of the patients served are poor	\$33.3 million
22	16%	for school, community, and statewide education programs designed to reduce the number of children and adults who smoke and reduce the community's exposure to second-hand smoke	\$28.0 million
23	16%	to prevent, detect, and treat cancer, heart, and lung diseases	\$28.0 million
24	3%	to be used by the state and local governments for any health- related purpose	\$5.2 million

25 ***This proposal and current law.*** In 2004, the state legislature passed a law in
26 anticipation of this proposal. The law does not affect how the money from the new
27 tobacco taxes is distributed. However, it declares that the legislature is responsible for
28 setting the spending levels for health-related programs funded from other sources of
29 revenue.

1 **Arguments For**

2 1) The new taxes will help some low-income children and adults receive health
3 care that they could not otherwise afford. An estimated 15 percent of Colorado adults
4 and 14 percent of Colorado children do not have health insurance. Individuals without
5 health insurance often have greater health problems than those with health insurance
6 because they don't receive regular health care. Under this proposal, more low-income
7 individuals will be treated for illnesses regularly, preventing greater and more costly
8 health problems in the future.

9 2) Raising tobacco taxes will deter some youth from becoming addicted to
10 tobacco products. Almost all adult smokers started smoking when they were teenagers.
11 In Colorado, one in every four high school students smokes. Studies have shown that
12 as the price of tobacco products rises, an increasing number of youth will stop, or never
13 start, using tobacco. Funding programs that educate children about the dangers of
14 tobacco use will also discourage youth from using tobacco and will help smokers to quit.

15 3) Colorado taxpayers pay millions of dollars each year in preventable tobacco-
16 related health care costs. The proposal will provide money to treat individuals who have
17 tobacco-related illnesses and will lower future tobacco-related health care costs by
18 reducing tobacco use throughout the state. Tobacco use is the leading cause of
19 preventable death in Colorado, killing 4,200 Coloradans each year. Annual health care
20 costs in Colorado directly related to smoking are more than \$1.0 billion. Every year, the
21 state spends \$249 million to treat low-income individuals with tobacco-related illnesses.

22 **Arguments Against**

23 1) The proposal raises taxes and increases the size and cost of government.
24 Colorado smokers and tobacco users will pay 320 percent more in state cigarette taxes
25 and 100 percent more in state taxes on other tobacco products to fund state health care
26 programs. Taxes for a one-pack-a-day smoker would increase by \$234 each year. A
27 1998 lawsuit settlement between the states and the cigarette industry has already
28 increased the size of government with money from smokers. Since the settlement,
29 government spending for health and other programs has risen by a total of \$485 million
30 and cigarette prices have increased more than 89 percent.

31 2) The tax increase may cause additional hardship to low-income families in
32 Colorado. People living in poverty are 48 percent more likely to smoke than those not
33 living in poverty. The tax takes a much larger bite out of the budgets of low-income
34 individuals than wealthy individuals.

35 3) Funding for health care may not increase very much. Current law may result
36 in a large portion of the new tax money being spent on existing programs, rather than
37 expanded programs. If this is the case, smokers would be paying much higher taxes, but
38 few would receive additional health care services. In addition, this new tax money may

1 be inadequate over time to maintain some of the proposal's programs while others may
2 have more money than they require. The legislature will not be able to fix these problems
3 because it will have no control over the distribution of this money.

4 **Estimate of Fiscal Impact**

5 The proposal will raise about \$169.8 million in new revenue for health care
6 programs and \$5.2 million for the state and local governments in the 2005-06 budget
7 year. Additionally, the state will incur a one-time cost of \$3,500 for computer
8 programming changes to track the new revenue.