

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 or 320
3 percent;
- 4 ♦ doubles the tax on tobacco products other than cigarettes from 20 percent to
5 40 percent of the price;
- 6 ♦ specifies that the new tax revenue is to be used for health care services and
7 tobacco education and cessation programs;
- 8 ♦ requires the legislature to maintain funding levels for existing health-related
9 programs as of January 1, 2005, and to use the new revenue only to expand
10 these programs;
- 11 ♦ excludes the new tax revenue from state revenue and spending limits and
12 local government revenue limits; and
- 13 ♦ allows the legislature, by a two-thirds vote, to declare a state fiscal
14 emergency and to use all of the new revenue only for health-related purposes
15 for up to one budget year at a time.

16 **Background**

17 ***Cigarette taxes.*** Cigarette taxes are levied by the federal government and all 50
18 states. The federal tax rate on cigarettes is 39 cents per pack. For 2004, state tax rates
19 range from a high of \$2.80 per pack in Rhode Island to a low of 20 cents per pack in
20 Colorado. The national average is 98 cents per pack.

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

27 ***History of tobacco taxes in Colorado.*** In 1964, the state established a tax on
28 cigarettes of 3 cents per pack. Prior to the state cigarette tax and through 1972, many
29 local governments also taxed cigarettes. In 1973, the state raised the tax on cigarettes
30 to 10 cents per pack and gave local governments the option of receiving a portion of
31 state cigarette taxes or levying their own tax. No local government has levied a tax since

that time. In 1986, Colorado's cigarette tax was raised to its current rate of 20 cents per pack, and the tobacco products tax of 20 percent of the price was enacted. The proposal prohibits the legislature from reducing these taxes in the future.

Current tobacco revenues. Colorado collected about \$64.8 million from cigarette and tobacco products taxes last year. About one-quarter of this amount is sent to local governments statewide to use as they see fit. The remaining three-quarters is deposited into the state's bank account, along with other state taxes, to pay for state programs. Because Colorado is a participant to the master settlement agreement between the tobacco companies and the various states, the state expects to receive approximately \$118 million per year in additional money for the next 20 years.

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

Distribution of tobacco tax revenues under the proposal. Collection of the new tobacco taxes would begin on January 1, 2005. The proposal is expected to raise an additional \$175 million annually. Of this amount, \$169.8 million goes to targeted health care programs and \$5.2 million can be spent by the state and local governments on health-related programs of their choosing. 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 and their parents, pregnant women, and other adults served by state health care programs	\$80.5 million
19%	to pay for health care services at clinics or hospitals where at least half of the patients served are poor	\$33.3 million
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
16%	to prevent, detect, and treat cancer, heart, and lung diseases	\$28.0 million
3%	to be used by the state and local governments for any health-related purpose	\$5.2 million

This proposal and current law. In 2004, the state legislature passed a law in anticipation of this proposal. The law does not affect how the new money raised from this proposal is distributed. However, it declares that the legislature is responsible for

1 setting the spending levels for health-related programs funded from existing sources of
2 revenue. The proposal directs where the new revenue will be spent but gives the
3 legislature flexibility during a fiscal emergency to spend these dollars for other health-
4 related purposes. At any time, the legislature may refer a measure to the people to
5 change how this money is spent.

6 **Arguments For**

7 1) Tobacco use is the leading cause of preventable death in Colorado, killing
8 4,200 Coloradans each year. Annual health care costs in Colorado directly related to
9 smoking are more than \$1.0 billion. Under this proposal, funds will be provided to
10 prevent, detect, and treat cancer and heart and lung disease, ailments that affect many
11 Coloradans. The new taxes will also help low-income children and adults receive health
12 care that they could not otherwise afford. The proposal will provide money to treat
13 individuals who have tobacco-related illnesses and will lower future tobacco-related
14 health care costs by reducing tobacco use throughout the state.

15 2) Colorado is currently 50th among the states in the level of cigarette taxes.
16 Raising tobacco taxes will deter many youth from becoming addicted to tobacco
17 products. Almost all adult smokers started smoking when they were teenagers. In
18 Colorado, one in every four high school students smokes and over a third use tobacco
19 of some sort. Youth tobacco consumption in Colorado is higher than the national
20 average. Studies have shown that as the price of tobacco products rises, an increasing
21 number of youth will stop, or never start, using tobacco. Funding programs that educate
22 children about the dangers of tobacco use will also discourage youth from using tobacco
23 and will help smokers to quit.

24 3) This proposal will not decrease revenue to state and local governments. In
25 every state that has raised cigarette taxes, revenue has increased despite reduced
26 cigarette pack sales and use of the internet to purchase cigarettes. This proposal ensures
27 that local governments will receive funds to make up for any revenue loss due to lower
28 tobacco sales because it guarantees that local governments will receive a portion of the
29 new tax moneys.

30 **Arguments Against**

31 1) The proposal puts a tax increase in the state constitution and increases the size
32 and cost of government. Colorado smokers and tobacco users will pay 320 percent more
33 in state cigarette taxes and 100 percent more in state taxes on other tobacco products to
34 fund state health care programs. Taxes for a one-pack-a-day smoker would increase by
35 \$234 each year. Existing constitutional spending requirements have limited the ability
36 of the legislature to react to changes in the state budget and economic conditions. This
37 proposal adds yet another inflexible spending mandate. Further, reductions in sales and
38 consumption due to this proposal will reduce funding to local governments that depend

1 upon current cigarette tax revenues to fund essential government functions like fire and
2 police protection.

3 2) The tax increase may cause additional hardship to low-income families in
4 Colorado. People living in poverty are 48 percent more likely to smoke than those not
5 living in poverty. The tax takes a much larger bite out of the budgets of low-income
6 individuals than wealthy individuals. There is no guarantee that smokers will benefit
7 from the new health care programs. If this is the case, smokers would be paying much
8 higher taxes, but few would receive additional health care services.

9 3) The proposal allocates \$28 million in badly needed state revenue to tobacco
10 education programs which may not be needed in future years if tobacco use continues
11 to decline. Nationally, demand is decreasing 2 percent per year, but in Colorado demand
12 is falling even more rapidly and will decrease further if consumers turn to other sources,
13 such as the internet, for their purchases. The new tax money may be inadequate over
14 time to maintain some of the proposal's programs while others may have more money
15 than they require. The legislature will not be able to fix these problems because it will
16 have no control over the distribution of this money.

17 **Estimate of Fiscal Impact**

18 The proposal will raise about \$169.8 million in new revenue for health care
19 programs and \$5.2 million for the state and local governments in the 2005-06 budget
20 year. Additionally, the state will incur a one-time cost of \$3,500 for computer
21 programming changes to track the new revenue. Current law reduces revenue for
22 health-related purposes as of January 1, 2005, in order to preserve the power of the
23 legislature to appropriate existing funds for state programs and functions.

24 **State Fiscal Year Spending and the Proposed Tobacco Taxes**

25 The state constitution requires that the following fiscal information be provided
26 when a taxation question is on the ballot:

- 27 1. an estimate or actual total of state fiscal year spending for the current year
28 and each of the past four years with an overall percentage change and dollar
29 change for that period; and
- 30 2. for the first full fiscal year of the proposed tax increases, an estimate of the
31 maximum dollar amount of each tax increase and of state fiscal year spending
32 without the increase.

33 Table 2 shows state fiscal year spending. Table 3 shows the revenue expected
34 from the new tobacco taxes and state fiscal year spending with and without these taxes.

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Table 2. State Fiscal Year Spending History

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	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Estimate	2004-05 Estimate
State Spending	\$7,949 million	\$7,760 million	\$7,713 million	\$8,191 million	\$8,220 million
4-Year Dollar Change in Spending: \$271 million from 2000-01 to 2004-05.					
4-Year Percent Change in Spending: 3.4% from 2000-01 to 2004-05.					

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Table 3. State Fiscal Year Spending and the Proposed Tobacco Tax Increases

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	2005-06 Estimate
State Spending Without New Taxes	\$8,483 million
New Cigarette Tax of \$0.64 per Pack	\$162 million
New Tobacco Products Tax of 20%	\$13 million
Total New Tobacco Taxes*	\$175 million
State Spending With New Taxes*	\$8,658 million

* The new tobacco tax revenue is not subject to the state's fiscal year spending limits.