

Blue Book

Amendment #72 Increase Cigarette and Tobacco Taxes

1 **Amendment 72 proposes amending the Colorado Constitution to:**

- 2 ◆ increase the state tax on a pack of cigarettes from \$0.84 to \$2.59;
- 3 ◆ increase the state tax on other tobacco products from 40 percent to
4 62 percent of the price; and
- 5 ◆ distribute the new tax money for medical research, tobacco-use
6 prevention, doctors and clinics in rural or low-income areas, veterans'
7 services, and other health-related programs.

8 **Summary and Analysis**

9 **Existing taxes on cigarettes.** The federal government collects a tax of \$1.01 on
10 each pack of 20 cigarettes. Additionally, every state collects a cigarette tax.
11 Colorado's cigarette tax is 84 cents per pack. Of this amount, 64 cents is required to
12 be spent on health-related programs identified in the Colorado Constitution, including
13 Medicaid, children's health care, tobacco education programs, and disease prevention
14 and treatment. The remaining 20 cents is spent on various state government
15 programs. Local governments may choose not to collect a cigarette tax in order to
16 receive a share of state revenue. Since 1973, no local government has collected a
17 cigarette tax.

18 **Existing taxes on other tobacco products.** Both the federal and state
19 government collect taxes on non-cigarette tobacco products, including cigars, pipe
20 tobacco, snuff, dip, and chewing tobacco. Existing taxes do not apply to e-cigarettes.
21 The federal tax is calculated according to the product's weight or price. Colorado's
22 state tax is equal to 40 percent of the manufacturer's list price of the product. Of this
23 amount, half is spent on the same health programs as the cigarette tax, and half is
24 spent on other state government programs. Some local governments collect sales
25 taxes on tobacco products.

26 **Existing cigarette and other tobacco taxes.** Colorado collected about
27 \$200.3 million from cigarette and tobacco taxes in state budget year 2015-16. Of this
28 amount, \$143.7 million was spent on health-related programs as required in the
29 Colorado Constitution, and \$56.6 million was spent on other state and local
30 government programs.

31 State sales taxes are collected on some services and most goods, including
32 cigarettes and tobacco products. Sales taxes are spent on the state's general
33 operating budget.

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1 **Additional taxes on cigarettes and tobacco products in Amendment 72.** The
2 measure increases the cigarette tax by \$1.75 per pack of 20 cigarettes and the tax on
3 other tobacco products by 22 percent of the manufacturer's list price. The tax
4 increase will take effect on January 1, 2017. Neither the existing taxes nor the
5 additional taxes in Amendment 72 apply to e-cigarettes. Revenue from the new taxes
6 is exempt from the state's constitutional revenue limit.

7 **Distribution of new tax revenue in Amendment 72.** The distribution of the
8 money generated from the additional taxes is shown in Table 1.

9 **Table 1**
10 **Distribution of Money Generated From Additional Taxes Under Amendment 72**

11	Purpose	Distribution
12 13 14 15	Spending on health-related programs funded by previously approved tobacco taxes, including Medicaid, children's health care, tobacco education programs, and disease prevention and treatment	18%, up to \$36 million annually. Any amount over \$36 million will be distributed proportionally to the other uses.
16 17	Research grants to study tobacco-related health issues	27%
18 19	Education and prevention, and other programs encouraging people to stop using tobacco	16%
20 21	Grants to improve health, find employment, and prevent homelessness for veterans	14%
22 23	Grants for child and adolescent mental health and substance abuse prevention and treatment	10%
24 25 26	Construction or improvements to community health centers or providers that serve predominantly low income patients	10%
27 28 29	Student loan repayment and training for health care professionals working in rural or underserved areas of the state	5%

30 Amendment 72 requires the state legislature to maintain 2016 funding levels for
31 existing health-related programs in Figure 1 and use the new tax revenue to expand
32 the existing programs.

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*For information on those issue committees that support or oppose the measures on the ballot at the **November 8, 2016**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

1 **Arguments For**

2 1) Higher prices for cigarettes and tobacco products have been shown to deter
3 smoking and tobacco use, especially among children and young adults. When
4 cigarette taxes were last increased in 2005, the number of cigarettes consumed
5 per person in Colorado fell by 12.6 percent. Tobacco use is a leading cause of
6 preventable diseases like cancer, and heart and lung disease, contributing to
7 5,100 deaths in Colorado per year. Reducing smoking and tobacco use will improve
8 the health of Colorado residents.

9 2) Dedicating cigarette and tobacco tax revenue to health care and research is an
10 important way to offset the health care burden and cost tobacco use places on the
11 state. Tobacco use increases direct health care costs in Colorado by an estimated
12 \$1.9 billion annually, with additional health care costs related to secondhand smoke.
13 The revenue from the proposed tax increase will fund health programs, research, and
14 benefits for Colorado veterans, people with mental health diagnoses, and rural health
15 care providers.

16 **Arguments Against**

17 1) Amendment 72 is a \$315.7 million tax increase. The measure creates a
18 constitutional requirement that revenue from the new taxes be spent on specific
19 programs, even if these programs are ineffective at reducing the cost of tobacco use.
20 Unless voters approve another constitutional change, the spending priorities in the
21 measure will receive taxpayer funding indefinitely. As tobacco use declines,
22 Amendment 72 will lock in state spending on unnecessary programs even when new
23 needs are identified in the state budget.

24 2) Tripling the tax on cigarettes impacts low-income tobacco users the most.
25 Recent studies have shown that people with lower incomes are more likely to use
26 tobacco products and less able to afford a tax increase. Nationally, more than a
27 quarter of people in poverty smoke cigarettes, and tobacco users with low incomes
28 spend about 14 percent of their household income on tobacco products. Because
29 these products are addictive, tobacco users may continue using tobacco even after
30 taxes are increased. Low-income tobacco users who are unable to quit will subsidize
31 programs that benefit non-tobacco users, taking money out of already tight household
32 budgets.

1 **Estimate of Fiscal Impact**

2 **State revenue and spending.** Amendment 72 is expected to increase new state
 3 tax revenue by \$315.7 million in state budget year 2017-18, the first full year in which
 4 the new tax will be in effect. The higher cost of cigarettes is expected to reduce
 5 tobacco consumption and revenue from existing taxes by \$16.7 million. The net
 6 impact to state revenue under Amendment 72 is expected to be \$299.0 million in state
 7 budget year 2017-18. The amendment outlines how the new revenue from the tax
 8 increase must be spent, shown below in Table 2. All of these programs will be
 9 administered by either the Colorado Department of Public Health and Environment or
 10 the Department of Health Care Policy and Financing.

11 **Table 2**
 12 **Estimated Revenue From Additional Taxes Under Amendment 72**
 13 **State Budget Year 2017-18**

Purpose	Estimated Amount
Spending on health-related programs funded by previously approved tobacco taxes, including Medicaid, children's health care, tobacco education programs, and disease prevention and treatment	\$36 million
Research grants to study tobacco-related health issues	\$92 million
Education and prevention, and other programs encouraging people to stop using tobacco	\$55 million
Grants to improve health, find employment, and prevent homelessness for veterans	\$48 million
Grants for child and adolescent mental health and substance abuse prevention and treatment	\$34 million
Construction or improvements to community health centers or providers that serve predominantly low income patients	\$34 million
Student loan repayment and training for health care professionals working in rural or underserved areas of the state	\$17 million

32 Because Amendment 72 takes effect January 1, 2017, state revenue will increase
 33 by approximately \$149.5 million, and costs will increase in the Colorado Department of
 34 Public Health and Environment, the Department of Health Care Policy and Financing,
 35 and the Department of Revenue in budget year 2016-17.

1 **State Spending and Tax Increases**

2 Article X, Section 20 of the Colorado Constitution requires that the following fiscal
3 information be provided when a tax increase question is on the ballot:

- 4 ♦ estimates or actual amounts of state fiscal year spending for the current
5 year and each of the past four years with the overall percentage and
6 dollar change; and
- 7 ♦ for the first full year of the proposed tax increase, an estimate of the
8 maximum dollar amount of the tax increase and of state fiscal year
9 spending without the increase.

10 “State fiscal year spending” is a legal term in the Colorado Constitution. It equals
11 the amount of revenue subject to the constitutional spending limit that the state is
12 permitted to keep and either spend or save for a single year. Table 3 shows state
13 fiscal year spending from FY 2012-13 through FY 2016-17.

14 **Table 3**
15 **State Fiscal Year Spending, FY 2012-13 to FY 2016-17**

	Actual FY 2012-13	Actual FY 2013-14	Actual FY 2014-15	Preliminary FY 2015-16	Estimated FY 2016-17
Fiscal Year Spending	\$11.11 billion	\$11.69 billion	\$12.36 billion	\$12.90 billion	\$13.08 billion
Four-Year Dollar Change in State Fiscal Year Spending: \$1.97 billion					
Four-Year Percent Change in State Fiscal Year Spending: 17.7 percent					

22 **FY = fiscal year. The state's fiscal (or budget) year begins on July 1.*

23 Table 4 shows the revenue expected from the new tax, and state fiscal year
24 spending without the tax, for FY 2017-18, the first full fiscal year for which the increase
25 would be in place.

26 **Table 4**
27 **State Fiscal Year Spending and the Proposed Cigarette**
28 **and Tobacco Tax Increase**

	FY 2017-18 Estimate
State Fiscal Year Spending	\$16.01 billion
Revenue from the New Tax	\$315.7 million