

Increasing taxes on tobacco reduces its use, raises revenue, and improves public health

Statement given before the House Ways and Means Committee

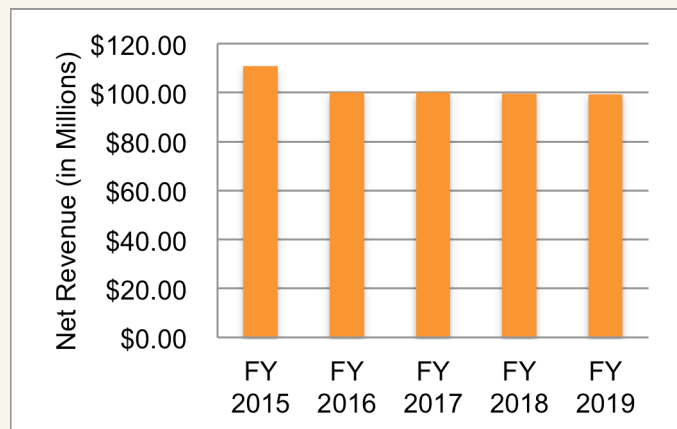
Maryland Center on Economic Policy Supports House Bill 443

Cigarette smoking is the leading preventable cause of death Maryland. More than 6,800 people die from smoking-related illnesses in Maryland each year, at a cost to the state of \$1.96 billion annually in health care bills, including \$476 million in Medicaid payments.¹ The recent decision by CVS to stop selling cigarettes as it tries to increase its credibility as a health care provider underlines this basic truth about the cost of smoking.²

Taxes on tobacco are a particularly effective policy tool, as studies show that significant increases in tobacco taxes in turn lead to significant improvements in public health.³ The Congressional Budget Office estimates that a 10 percent increase in cigarette taxes leads to a 5 to 15 percent reduction in smoking among minors and a 3 to 7 percent reduction among adults.⁴ In Maryland youth smoking rates dropped by 29 percent over the next two years, while smoking among adults dropped by 13 percent after just one year, after the state doubled taxes on cigarettes in 2007.⁵

HB 443 INCREASES REVENUE AND DIRECTS MORE SPENDING TOWARDS PUBLIC HEALTH

Net Revenue Effect of HB 443 after Mandated Expenditures on Tobacco Cessation Programs



Source: Maryland Department of Legislative Services

¹ Maryland Citizens' Health Initiative, "Significant Strides: Reducing Smoking and Expanding Health Care in Maryland," October 30, 2013, <http://healthcareforall.com/wp-content/uploads/2012/01/MD-Success-from-2008-Tax-Increase-Report-DRAFT-10-14-13.pdf>

² Sarah Cliff. "CVS to Stop Selling Cigarettes by Oct 1." *Washington Post*. February 5, 2014.

<http://www.washingtonpost.com/blogs/wonkblog/wp/2014/02/05/why-cvs-thinks-it-can-win-big-by-ending-cigarette-sales/>

³ Chaloupka, Frank J. Ayda Yurekli, and Geoffrey T. Fong, "Tobacco Taxes as a Tobacco Control Strategy," *Tobacco Control*, 2012, 21 pp. 172-180, <http://tobaccocontrol.bmj.com/content/21/2/172.full>.

⁴ Marr, Chuck, Krista Ruffini, and Chye Ching Huang, "Higher Tobacco Taxes Can Improve Health and Raise Revenue," Center on Budget and Policy Priorities, June 19, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3978>

⁵ Maryland Citizens' Health Initiative, "Significant Strides: Reducing Smoking and Expanding Health Care in Maryland," October 30, 2013, <http://healthcareforall.com/wp-content/uploads/2012/01/MD-Success-from-2008-Tax-Increase-Report-DRAFT-10-14-13.pdf>

The Maryland Center on Economic Policy therefore supports House Bill 443, increasing the tobacco tax rate from \$2 to \$3 per pack of cigarettes as well as taxes on the wholesale price of ‘other tobacco products,’ such as cigars or smokeless tobacco.

The Maryland Youth Tobacco survey shows that while cigarette smoking is down almost 40 percent among high school students between 2000 and 2010, cigar smoking has increased by 11 percent over the same period.⁶ Similarly, during this time sales of cigarettes decline by 33.6 percent while sales of cigar products increased by more than 176 percent.⁷

Raising taxes on tobacco will also generate additional revenue for the state. The 2007 cigarette tax increase raised \$126 million in revenue in its first year of enactment. This marked a 46 percent increase in the revenue from the tobacco tax even while cigarette sales declined by 27 percent.⁸ The Department of Legislative Services estimates that House Bill 443 would generate a net increase of close to \$100 million in each of the next five budgets.⁹

In addition, House Bill 443 requires the Governor to include at least \$21 million in annual funding for the Tobacco Use Prevention and Cessation Program beginning in FY 2016. Increased funding for the Tobacco Use Prevention and Cessation Program is especially important because, as the fiscal note for House Bill 443 points out, “fiscal difficulties have prompted reductions to the mandated funding levels” for programs funded by the Cigarette Restitution Fund. The Budget Reconciliation and Financing Act of 2010 (Chapter 484) reduced annual appropriations for tobacco use prevention and cessation activities to \$6 million in FY 2011 and FY 2012, and \$10 million annually beginning in FY 2013, down from \$21.0 million in annual appropriations.

Finally, although people with low incomes are disproportionately likely to be smokers - 29 percent of poor adults smoke, compared to 18 percent of non-poor adults – cigarette taxes are less regressive when their full health benefits are taken into account.¹⁰ People living below the poverty line see greater health benefits as measured by their share of reduced deaths than they pay as a share of a tax increase on tobacco.¹¹

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee give a favorable report to House Bill 443.

6 Maryland Department of Health and Mental Hygiene, “Cigar Use Among American Youth,” November 17, 2011, http://healthcareforall.com/wp-content/uploads/2012/01/Cigar-Use-Among-MD-Youth_DHMH-Study.pdf

7 Ibid.

8 Maryland Citizens’ Health Initiative, “Significant Strides: Reducing Smoking and Expanding Health Care in Maryland,” October 30, 2013, <http://healthcareforall.com/wp-content/uploads/2012/01/MD-Success-from-2008-Tax-Increase-Report-DRAFT-10-14-13.pdf>

9 Maryland Department of Legislative Services, Fiscal and Policy Note for House Bill 443, 2014 Legislative Session, http://mgaleg.maryland.gov/2014RS/fnotes/bil_0003/hbo443.pdf

10 Centers for Disease Control and Prevention, “Current Cigarette Smoking Among Adults,” 2012, http://www.cdc.gov/mmwr/preview/mmwrhtml/mm6144a2.htm?s_cid=%20mm6144a2.htm_w

11 Marr, Ruffini, and Huang, 2013.