



# Tobacco Tax Presentation

June 20, 2018

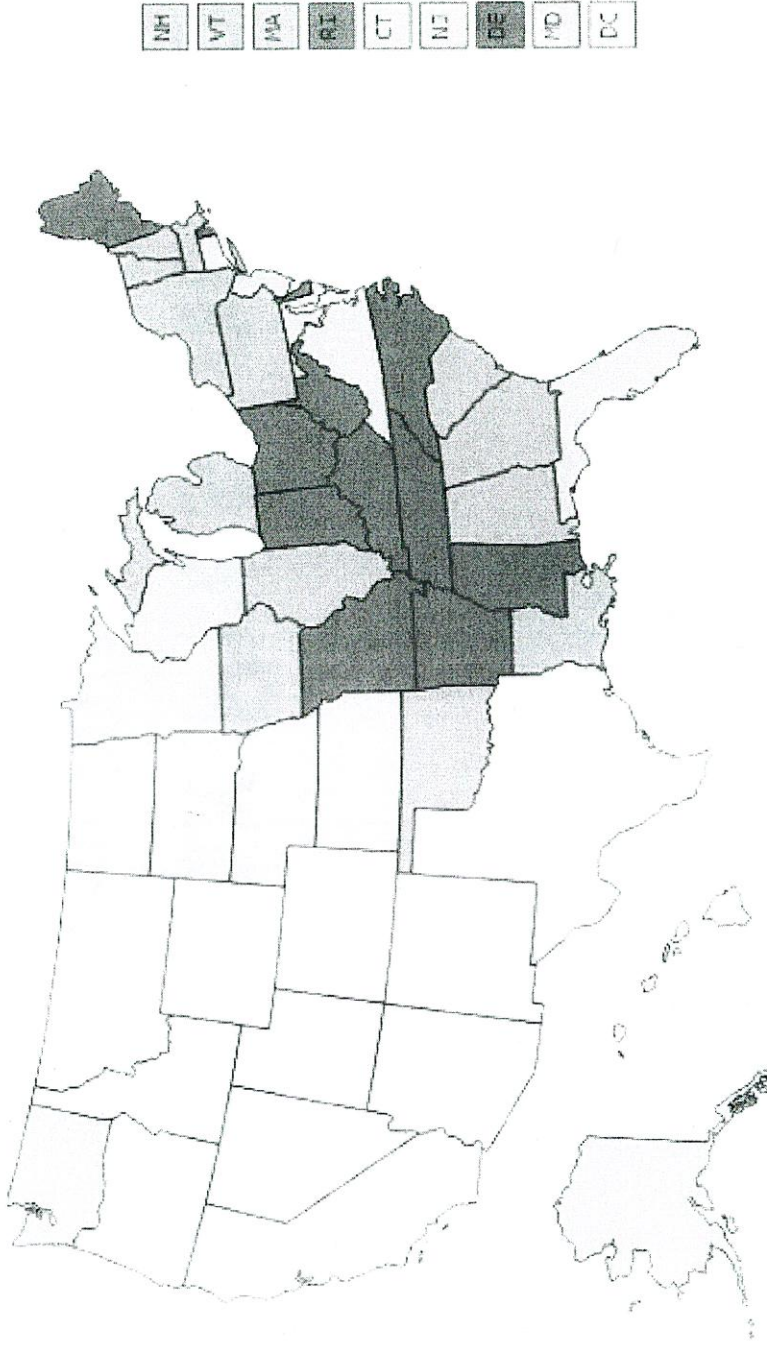




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### Rate of New Cancers in the United States

Lung and Bronchus, All Ages, All Races/Ethnicities, Male and Female Rate per 100,000 people, 2015



Rate per 100,000 people

200-300

300-400

400-500

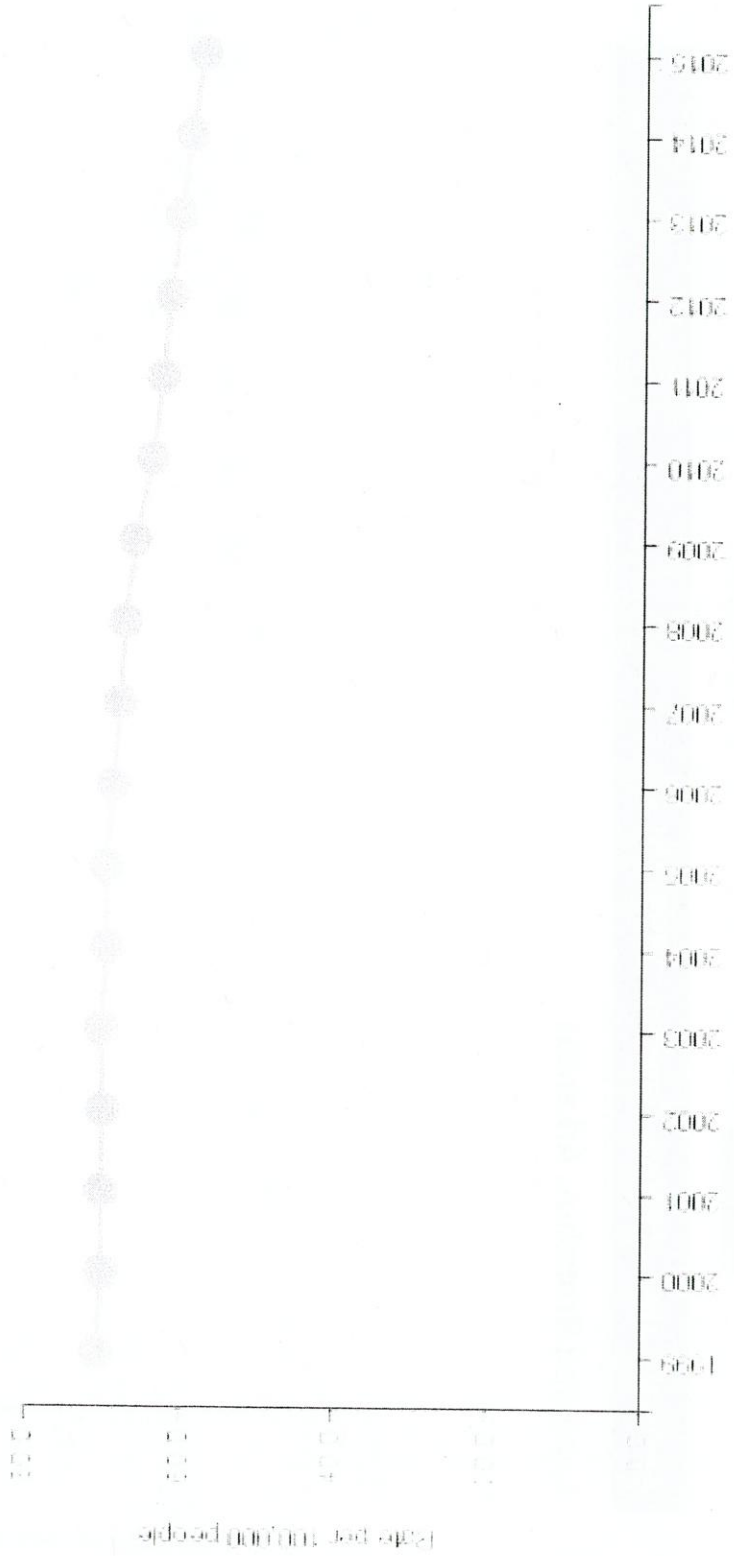
500-600



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### Annual Rates of New Cancers, 1999-2015

Lung and Bronchus, United States



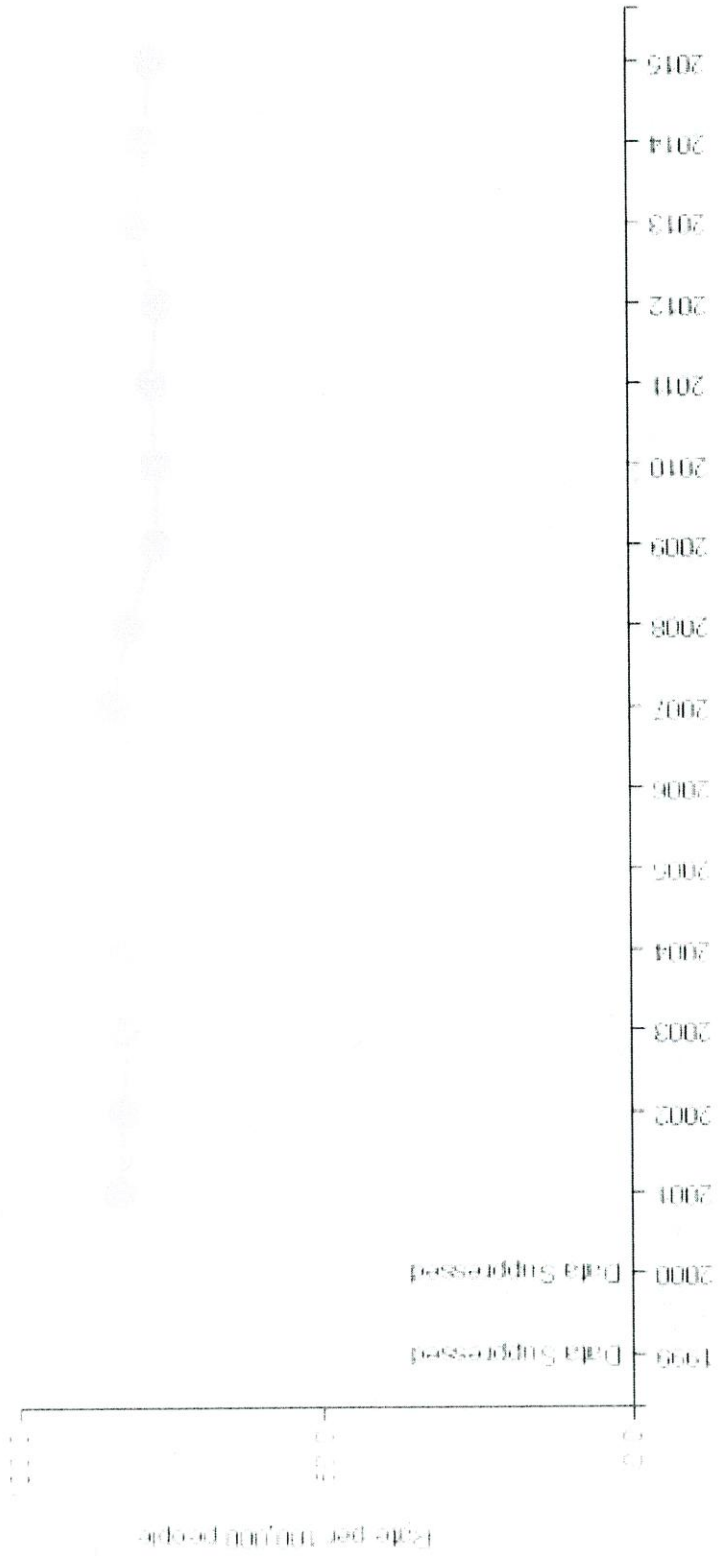


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### Annual Rates of New Cancers, 1999-2015

Lung and Bronchus, Arkansas



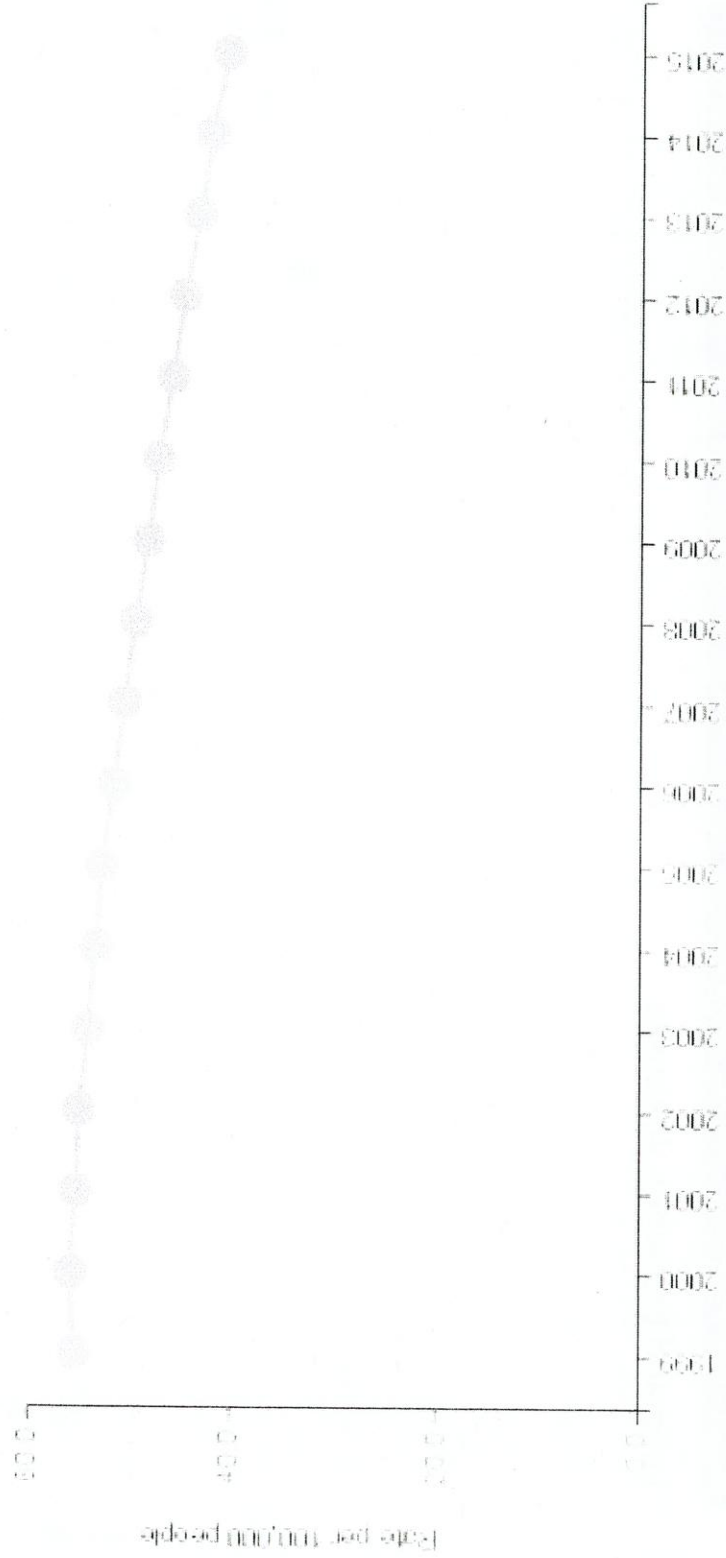




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### Annual Rates of Cancer Deaths, 1999-2015

Lung and Bronchus, United States

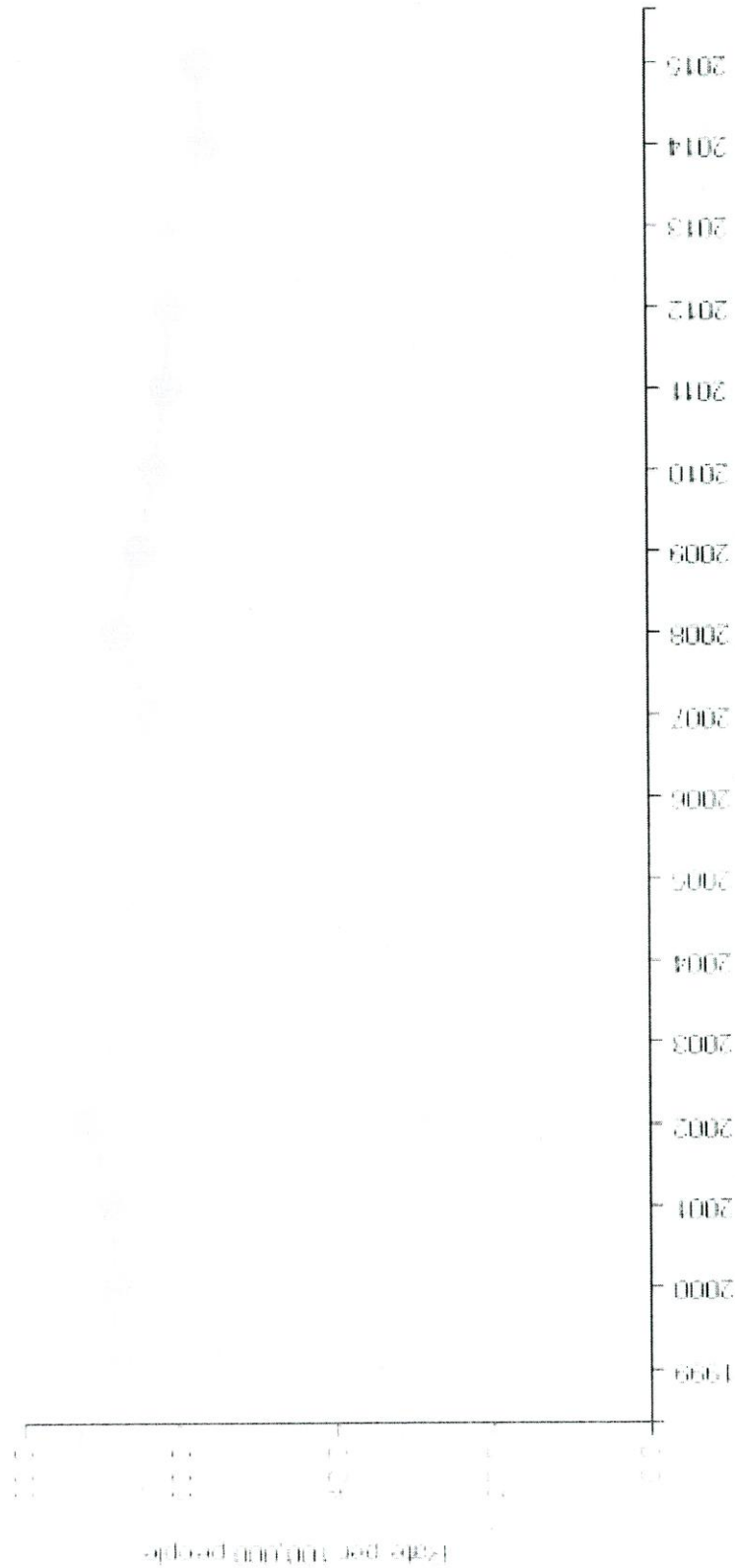




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### Annual Rates of Cancer Deaths, 1999-2015

Lung and Bronchus, Arkansas

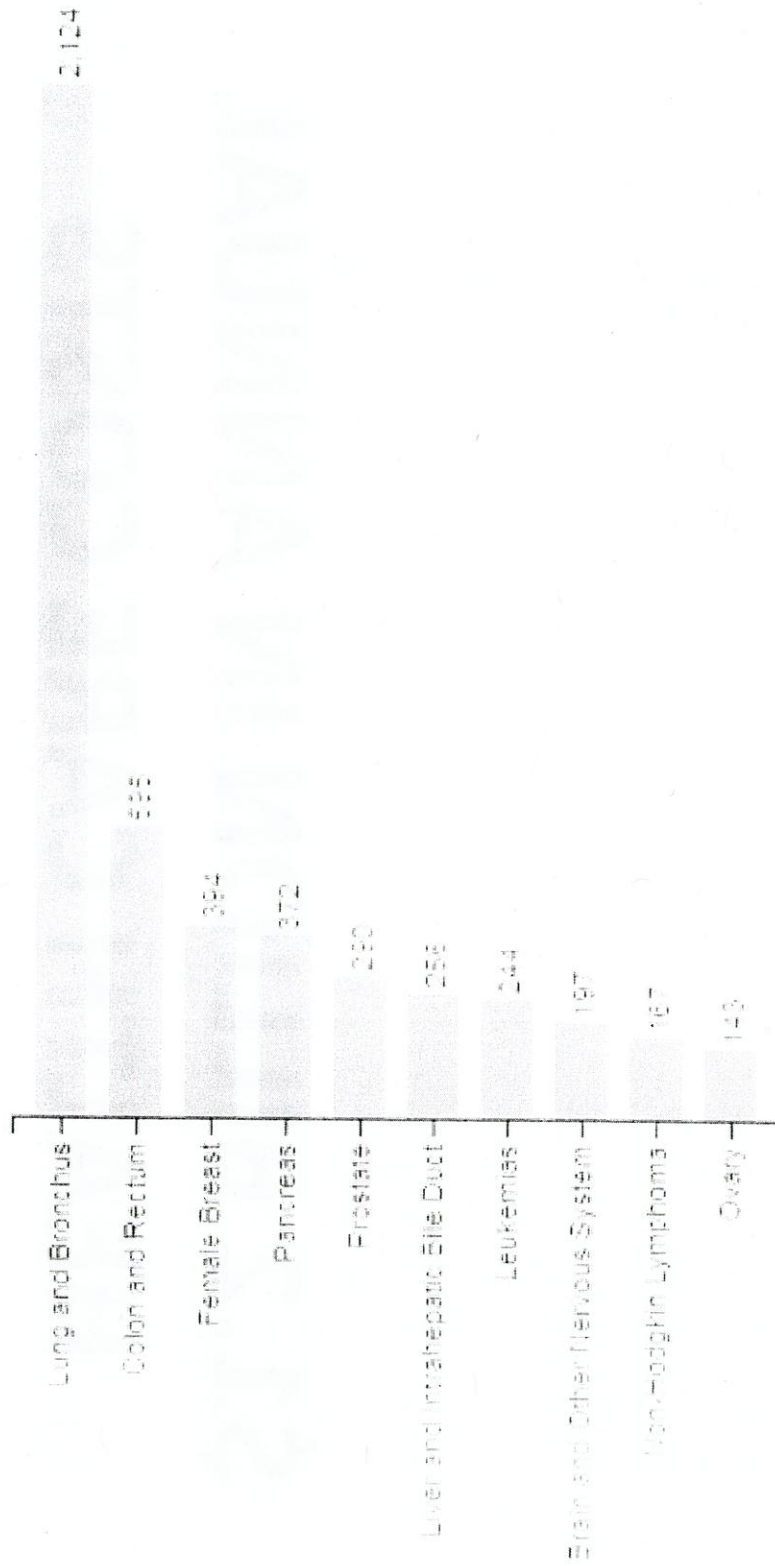




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### Top 10 Cancers by Number of Cancer Deaths

Lung and Bronchus, Arkansas, 2015



**\$1.2 BILLION IN ANNUAL  
HEALTH CARE COSTS**





**\$1,007 ADDITIONAL STATE  
AND TAX BURDEN**



**\$1.7 BILLION IN LOST  
WORKER PRODUCTIVITY**



**\$300 MILLION ADDITIONAL  
MEDICAID EXPENSE**









**NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS  
FROM A \$1.50 CIGARETTE TAX INCREASE IN ARKANSAS**

- The current state cigarette tax is \$1.15 per pack (34th among all states and DC).
- Annual health care expenditures in Arkansas directly caused by tobacco use are \$1.21 billion.

**Projected New Annual Revenue from Increasing the Cigarette Tax by \$1.50 Per Pack: \$121.30 million**

New Annual Revenue is the amount of additional new revenue the first full year the tax increase is in effect. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

<b>Projected Public Health Benefits for Arkansas from the Cigarette Tax Rate Increase</b>	
<i>Percent decrease in youth (under age 18) smoking:</i>	<b>16.4%</b>
<i>Youth under age 18 kept from becoming adult smokers:</i>	<b>22,500</b>
<i>Reduction in young adult (18-24 years old) smokers:</i>	<b>4,500</b>
<i>Current adult smokers who would quit:</i>	<b>26,900</b>
<i>Premature smoking-caused deaths prevented:</i>	<b>14,000</b>
<i>5-Year reduction in the number of smoking-affected pregnancies and births:</i>	<b>4,800</b>
<i>5-Year health care cost savings from fewer smoking-caused lung cancer cases:</i>	<b>\$5.04 million</b>
<i>5-Year health care cost savings from fewer smoking-affected pregnancies and births:</i>	<b>\$12.30 million</b>
<i>5-Year health care cost savings from fewer smoking-caused heart attacks &amp; strokes:</i>	<b>\$11.33 million</b>
<i>5-Year Medicaid program savings for the state:</i>	<b>\$4.86 million</b>
<i>Long-term health care cost savings from adult &amp; youth smoking declines:</i>	<b>\$1.03 billion</b>

12.19.17 TFK / February 28, 2018

\* Arkansas law allows retailers near the border to a state with a lower cigarette tax rate to charge the same tax as the neighboring state with the lower tax rate. This policy reduces the state's revenue and public health benefits from a tax increase because it essentially moves the border inward for tax collection purposes. The new revenue projection on this sheet includes a downward adjustment for this policy, but because of data limitations, the public health benefits listed do not. Therefore, the full public health benefits listed on this sheet should only be realized if the border exemption policy is removed.

- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenue).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state additional revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, smokeless tobacco, or other tobacco products taxed at a lower rate. The state's new OTP tax rate should be a percentage of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.



## **Explanations & Notes**

Health care costs listed at the top of the page are from the U.S. Centers for Disease Control and Prevention (CDC). Annual health care expenditures in Arkansas directly caused by tobacco use are in 2009 dollars and are from the CDC's 2014 *Best Practices for Comprehensive Tobacco Control Programs*.

Projections are based on research findings that nationally, each 10% increase in the retail price of cigarettes reduces youth smoking by 6.5%, young adult prevalence by 3.25%, adult prevalence by 2%, and total cigarette consumption by about 4% (adjusted down to account for tax evasion effects). However, the impact of the tax increase may vary from state-to-state, based on the starting pack price. Significant tax increases generate new revenues because the higher tax rate per pack brings in more new revenue than is lost from the tax-related drop in total pack sales.

The projections also incorporate the effect of ongoing background smoking declines, population distribution, and the continued impact of any recent state cigarette tax increases or other changes in cigarette tax policies on prices, smoking levels, and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states, including sales on tribal lands. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, <https://www.tobaccofreekids.org/assets/factsheets/0274.pdf>.

Projected numbers of youth prevented from smoking and dying are based on all youth ages 17 and under alive today. Projected reduction in young adult smokers refers to young adults ages 18-24 who would not start smoking or would quit as a result of the tax increase. Savings to state Medicaid programs include estimated changes in enrollment resulting from federal laws in effect as of December 2017 and state decisions regarding Medicaid expansion. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2018 dollars.

Projections for cigarette tax increases much higher than \$1.00 per pack are limited, especially for states with relatively low current tax rates, because of the lack of research on the effects of larger cigarette tax increase amounts on consumption and prevalence. Projections for cigarette tax increases much lower than \$1.00 per pack are also limited because small tax increases are unlikely to produce significant public health benefits.

Ongoing reductions in state smoking rates will, over time, gradually erode state cigarette tax revenues, in the absence of any new rate increases. However, those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can drop sharply during recessions. In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused health care and other costs over time. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <https://www.tobaccofreekids.org/assets/factsheets/0303.pdf>.

The projections in the table on this fact sheet were generated using an economic model developed jointly by the Campaign for Tobacco-Free Kids (TFK) and the American Cancer Society Cancer Action Network (ACS CAN) and are updated annually. The projections are based on economic modeling by researchers with Tobacconomics: Frank Chaloupka, Ph.D., John Tauras, Ph.D., and Jidong Huang, Ph.D. at the Institute for Health Research and Policy at the University of Illinois at Chicago, and Michael Pesko, Ph.D., at Georgia State University. The state Medicaid cost savings projections, when available, are based on enrollment and cost estimates by Matt Broaddus at the Center on Budget and Policy Priorities using data from the Centers for Medicare and Medicaid Services.

For other ways states can increase revenues (and promote public health) beyond just raising cigarette tax rates, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <https://www.tobaccofreekids.org/assets/factsheets/0357.pdf>.

***Additional information and resources to support tobacco tax increases are available at:***

<https://www.tobaccofreekids.org/what-we-do/us/state-tobacco-taxes/fact-sheets>

<http://acscan.org/tobacco/taxes/>

<http://tobacconomics.org/>

***For more on sources and calculations, see <https://www.tobaccofreekids.org/assets/factsheets/0281.pdf> or [www.acscan.org/tobaccotaxexplanations](http://www.acscan.org/tobaccotaxexplanations).***

Ann Boonn, Campaign for Tobacco-Free Kids  
Frank J. Chaloupka, Tobacconomics  
Katie McMahon, American Cancer Society Cancer Action Network



Mr. Chairman and members of the Tax Reform Task Force, thank you for the opportunity to speak to you today. My name is Michael Keck. I am Government Relations Director for the American Cancer Society Cancer Action Network (ACS CAN). ACS CAN is the nonprofit, nonpartisan advocacy affiliate of the American Cancer Society. We support evidence-based policy and legislative solutions designed to eliminate cancer as a major health problem. On behalf of cancer survivors, family members of those who have fought cancer and those that provide care to the cancer patient in our state, it is my privilege to join you today.

Over the past several months, I have watched your proceedings. I have a great appreciation for the work you have done; how you have researched our history in regards to our tax structure, how you have seen the trends of what has occurred in Arkansas and how you have learned from states that have done some things well and have learned from some states that have struggled. What I most appreciate is the tremendous level of understanding that you have developed in evaluating the cause and effect of tax policy. You know the work done by this task force and subsequently, the governor and the legislature, will impact our state. It can improve our ability to recruit industry. The work you do will better our opportunity to retain skilled and highly trained workers. I honestly believe that the work done by this group will vastly change our state. You have a unique opportunity to better our state. And I am grateful to each of you for the work you have done.

As you evaluate the generation of revenue for the function of state government, I have no doubt that you will create opportunities to assess how our state government spends the dollars it has been entrusted by its citizens. I am glad that a fresh look is being taken at how our state government is organized and I am hopeful that the elected leaders will continue the debate from both parties and both ends of the political spectrum as to how best to spend the taxpayer's dollars in the most effective and efficient manner.

Most of the focus of this task force has been on our state's economy and how tax policy can affect it; and, rightfully so. However, I would like to bring forward another concept for your consideration as you do your work and that concept is the impact of tax policy on our state's public health.

Mr. Chairman and members of the task force, the public health of Arkansans needs to improve. The incidence of cancer, heart disease, stroke and respiratory disease is way too high. The common thread in these poor health statistics is tobacco use. Our state's use of tobacco has not improved at the same level of the rest of the country. The adult smoking rate in Arkansas is the third highest in the country at 23.6 percent, and our youth smoking rate is 15.7 percent which is more than double the national average of 7.6 percent. In addition, we have the second highest rate of smoking-related cancer deaths in the country – 33.5 percent of cancer deaths in Arkansas are directly attributable to smoking. The most recently updated cancer related statistics released by the federal government shows that Arkansas significantly lags the rest of the country in newly diagnosed cases of lung cancer and lung cancer related deaths.

If you will look at the following slides:



Slide One – Arkansas is 3<sup>rd</sup> in the nation in the rate of new lung cancer cases. Our rate of newly diagnosed lung cancer cases is more than a third higher than the national average.

Slide Two – In this slide, nationally we are seeing a decline in the number of lung cancer deaths.

Slide Three – That decline is not equaled in the state of Arkansas. Nationally a decline of 27% has been experienced over the 16 years covered in these federal statistics. However, in Arkansas we have only experienced a 16% decline.

Slide Four – Nationally, these statistics show a 19% decrease in the number of new lung cancer cases.

Slide Five – Whereas, in Arkansas we have only experienced a 7% decline in new lung cancer cases. And are still 35% higher than the national cases per 100,000 people.

Slide Six – How prevalent is lung cancer in Arkansas? To equal the number of lung cancer deaths, a person could add deaths related to colo-rectal, female breast, prostate, pancreas, liver/bile duct, and leukemia and still not equal the number of lung cancer deaths.

The financial impact of the prevalent use of tobacco is significant.

- More than \$1.2 billion in health care cost is directly caused by smoking.
- Each and every resident of the state of Arkansas carries an additional \$1,007 in additional tax burden because smoking related causes of government expenditures.

- It is estimated that our state loses \$1.7 billion in worker productivity due to tobacco related illness.
- Finally, our state Medicaid budget spends nearly \$300 million each year on tobacco related illnesses.

An increase in the cigarette tax is supported by strong science and evidence. The 2014 U. S. Surgeon General Report, *The Health Consequences of Smoking – 50 years of Progress* concludes that increases in the price of tobacco products, including those resulting from excise tax increases, prevent initiation of tobacco use, promote cessation, and reduce the prevalence and intensity of tobacco use among youth and adults.<sup>i</sup> This conclusion reaffirms findings from previous Surgeon General's reports on tobacco use that raising the price of tobacco is one of the most effective tobacco prevention and control strategies, and that increasing the price of cigarettes and tobacco products decreases the prevalence of tobacco use, particularly among youth and young adults.<sup>ii</sup>

ACS CAN, in partnership with the Campaign for Tobacco-Free Kids and Dr. Frank Chaloupka and his Tobacconomics research team, has developed a projections model to estimate the public health and economic benefits produced by significant increases in state cigarette excise taxes. This predictive model is constantly being updated as new data comes in, and it incorporates data from the 48 U.S. states who have increased their cigarette taxes 130 times since 2002. In support of an increase in the tobacco tax, our organization has assessed that an increase of \$1.50 per pack will generate \$121.30 million. Additionally, increasing the cigarette tax by



\$1.50 per pack would prevent 22,500 youth from becoming adults who smoke, help 26,900 adults who smoke quit, and save 14,000 lives. Additionally, it would save \$1.03 billion in long-term health care cost savings from adult and youth smoking declines

It is important to keep in mind that the health and revenue impact of tobacco tax increases is largely dependent on the policy creating a significant and sustained change in the real *price* of tobacco products at the retail level, and also on the degree to which the price increase applies to *all* product categories.

Mr. Chairman, this increase in the tobacco tax will also provide other opportunities for this task force, for the legislature and for the governor. This task force has a great desire to do more to modify the tax code but is limited by the current rates of some taxes. The increase that we are advocating will allow this task force to more strongly consider many of the things under your consideration; such as, the implementation of an Earned Income Tax Credit, the maintenance of some of the tax exemptions which you may otherwise have to eliminate; this could be the vehicle that allows you to eliminate the inventory tax; or possibly this allows you to do more with the brackets and the rates for individual or corporate income taxes. These and the many other options you have to study could be more strongly considered if you knew these additional funds from increasing the tobacco tax were available to you.

I ask this Task Force to use this opportunity to not only differentiate our state in its desire to better our economy, attract industry, and retain and draw highly skilled workers to Arkansas. This is also THE opportunity to

better our state's health. Mr. Chairman and members of this task force, I respectfully ask that you increase the tobacco tax in Arkansas by \$1.50.

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<sup>i</sup> U.S Department of Health and Human Services (HHS). *The Health Consequences of Smoking – 50 Years of Progress: A Report of the Surgeon General*. Atlanta, GA. U. S. Department of Health and Human Services, Centers for Disease Control and Prevention and Health Promotion, Office of Smoking and Health; 2014. Available at <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/exec-summary.pdf>.

<sup>ii</sup> HHS, 2014.