Tobacco Tax & North Dakota

A quick look at the facts and why we should all be working together to raise it

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Quick Facts on ND’s Tobacco Taxes

- Tobacco Tax Rates in ND: 2014
  - Cigarette Tax: $0.44/pack
  - Federal tax: $1.01/pack (President Obama’s 2013 budget proposal included an increase of $0.94 to a $1.95 - no action thus far)
  - Pipe Tobacco & Cigars: 28% of wholesale purchase price
  - Snuff: $0.60/ounce
Quick Facts on ND’s Tobacco Taxes

- In the past 10 years, only three states—California, Missouri, and North Dakota—have not raised their cigarette tax.
- Last ND Tobacco Tax Increase: 1993
- Cigarette Tax: Raised from $0.29/pack to $0.44/pack
- Tobacco Product Tax: from 22% to 28%

So, not sure if you should consider North Dakota’s tobacco tax low or not? Let’s take a quick look at how North Dakota compares to other states…

A broad look at how North Dakota compares
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Summary of States
- Currently, 30 states, DC, Puerto Rico, the Northern Marianas and Guam have cigarette tax rates of $1.00 or higher:
- 15 states, DC, Puerto Rico and Guam have tax rates of $2.00 or higher:
- 6 states and Guam have tax rates of $3.00 or higher:
- And, 1 state has a rate over $4.00:
  - New York.

Take a closer look at North Dakota’s neighbors…
- MT: $1.70 = 3.9 times higher than ND
- MN: $2.83 (as of July 1, 2013) = 6.4 times higher than ND
- SD: $1.53 = 3.5 times higher than ND
- Additional *neighboring* fact…Saskatchewan: $5.00 = 11.4 times higher than ND
Tobacco Taxes Across the United States…

- Average State Cigarette Tax in US: $1.53/pack
- Average Cigarette Tax in Major Tobacco-producing States: $0.49/pack, NC, KY, VA, SC, TN, GA
- Average Cigarette Tax in Non-Tobacco-producing States: $1.67/pack
- State with Highest Cigarette Tax: New York (1st) = $4.35/pack
- State with Lowest Cigarette Tax: Missouri (51st) = $0.17/pack
- NORTH DAKOTA: 46th lowest cigarette tax = $0.44/pack
  Lower – LA, $0.36, MO, $0.17, GA, $0.37, AL, $0.425

So, not sure if you should consider North Dakota’s tobacco tax low or not?

Yep, it’s low.
(Even lower than the average in tobacco-producing states.)

Why do multiple health organizations statewide support a tobacco tax increase (and why we hope YOU will!)

- Youth Prevention
- Adult Reduction
- Reducing Health Care Costs
- Overall Benefit to Public Health
- (Revenue)
Reason #1: Youth Prevention
To provide an obvious perspective on why we focus on youth prevention, take a peek at what the industry is on record saying about our kids...

- “The ability to attract new smokers and develop them into a young adult franchise is key to brand development.” - 1999 Philip Morris report, “Five-Year Trends 1988-1992.” Bates No. 204495379-484

- “Pre-smokers.” - Term used in a 1973 RJR draft paper to describe youth smokers when they are just trying cigarettes, “Some Thoughts About New Brands of Cigarettes For the Youth Market.” Bates No 502987357-7368.

- “They represent tomorrow’s cigarette business... As this 14-24 age group matures, they will account for a key share of the total cigarette volume -- for at least the next 25 years.” - September 30, 1974 R.J. Reynolds Tobacco Co. marketing plan presented to the company’s board of directors. Bates No. 501421310-1335

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Reason #1: Youth Prevention
Where are North Dakota youth at now?:

Current Youth Tobacco Use Rates in ND:
- Cigarettes: 19.4% (compare to US Average of 18.1%)
- Smokeless: 22.2% (compare to US average of 12.8%)

What is the direct impact of increased price on youth initiation?:


Reason #1: Youth Prevention
What is the direct impact of increased price on youth initiation?:

“Raising Cigarette taxes lowers consumption, especially among younger people” - 10% increase in price per pack results in... 5-15% decrease in smoking among people under age 18

“5-15%”

“The case for a cigarette tax, in one graphic” - Washington Post, June 20, 2013.
Reasons to support a tobacco tax increase:

- Youth Prevention ✓
- Adult Reduction
- Reducing Health Care Costs
- Overall Benefit to Public Health
- (Revenue)

Reason #2: Adult Reduction

The President's Cancer Panel's 2007 report, *Promoting Healthy Lifestyles*, advised increasing state tobacco taxes, stating, "Increases in tobacco excise taxes, which are passed along to consumers in the form of higher tobacco product prices, have proven highly effective in reducing tobacco use by promoting cessation among current users, discouraging relapse among former users, preventing initiation among potential users, and reducing consumption among those who continue to use tobacco. These revenues also provide crucial dollars needed to fund anti-tobacco efforts."


[Graph showing U.S. Cigarette Prices vs. Consumption 1970-2007]

Reason #2: Adult Reduction

Where are North Dakota adult use rates at now?:

Current Tobacco Use Rates in ND:
- Cigarettes: 21.2% (compare to US average of 18.1%)
- Smokeless: 7.6% (compare to US average of 4.4%)

Reason #2: Adult Reduction

In every single state that has significantly raised its cigarette tax rate, pack sales have gone down sharply.

Take Minnesota, for example. Within just the first two weeks following their cigarette tax increase (from $1.60 to $2.83, effective July 1, 2013), calls into their state quit line increased by 256%, and their quit plan website received an increase of 286% in traffic.

North Dakota already has a great, FREE program that is ready for an increase in enrollment…

Reasons to support a tobacco tax increase:
- Youth Prevention ✓
- Adult Reduction ✓
- Reducing Health Care Costs
- Overall Benefit to Public Health
- (Revenue)
Reason #3: Reducing Health Care Costs

- Annual health care expenditures in North Dakota directly caused by smoking each year: $326 million
- Total federal-state Medicaid program smoking costs in North Dakota each year: $47 million
- Smoking-caused productivity losses: in North Dakota per year: $192 million
- Cost per household per year in state and federal taxes from smoking-caused government expenditures: $586
- Tobacco Marketing expenditures in North Dakota annually: $27.9 million

Reason #3: Reducing Health Care Costs

A 2007 report released by the Institute of Medicine entitled *Ending the Tobacco Problem: A Blueprint for the Nation* recommended increasing taxes as an effective tool to reduce tobacco use. In June 2012, the CBO examined the effect of a hypothetical 50-cent increase in the federal excise tax and found it would generate savings for Medicaid and subsidies for health insurance purchased through exchanges every year. Medicare spending would decrease modestly initially and increase overtime as more people lived longer, but the tax increase would still result in lower deficits.

Reasons to support a tobacco tax increase:

- Youth Prevention ✓
- Adult Reduction ✓
- Reducing Health Care Costs ✓
- Overall Benefit to Public Health
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- (Revenue)
Reason #4: Overall Public Health Benefit

- Tobacco use remains North Dakota’s leading preventable cause of death, killing more people than alcohol, AIDS, car crashes, illegal drugs, murders, and suicides combined. 910 North Dakotans die yearly from tobacco-related disease.
- The health and economic costs attributed to smoking are estimated at $10.47/pack.
- The public supports tobacco prevention efforts: 89% of North Dakotans support fully funding a comprehensive tobacco prevention program, 72% support the smoke-free law, and support is growing every day to increase the tobacco tax for health.

Reasons to support a tobacco tax increase:

- Youth Prevention ✓
- Adult Reduction ✓
- Reducing Health Care Costs ✓
- Overall Benefit to Public Health ✓
- (Revenue)

Benefits of a $1.56 increase

- Percent decrease in youth smoking, 25.2%
- 7,900 youth under age 18 kept from becoming adult smokers
- 8,500 current adult smokers who would quit
- 5-year smoking-affected births avoided, 1,600
- 5-year health savings, smoking-caused lung cancer cases, $1.35 million
- 5-year health savings, fewer smoking-affected pregnancies & births, $3.62 million
- 5-year health savings from fewer smoking-caused heart attacks & strokes, $2.65 million
- 5-year Medicaid program savings, $920k
Why are states leaving money on the table?

Federal Tax & Voluntary Industry Price Increases

Yields benefit in decreasing use, HOWEVER...

- Money benefits occur at the National level, very little revenue is received to directly impact state level and funded programs

- States have little to no control over where those dollars are appropriated. Current Federal proposal is a $0.94 increase.

- The tobacco industry already increases prices over time, do so incrementally to "transition" users into a higher price point over time, which doesn’t decrease use rates and benefit public health. Instead of states receiving the public health benefit and revenue, the industry obtains all benefit and profit.

FAQs/Common Arguments:

Why tobacco? Why do “you people” obsess about tobacco? What’s next, taxing fatty foods?

There are strong, clear reasons to treat cigarettes and other tobacco products differently and more harshly than any other consumer products. There is absolutely no consumer product or category of consumer product other than cigarettes and tobacco products that inevitably causes disease, disability, and death and enormous social and economic costs even when used exactly as intended and directed.
FAQs/Common Arguments:
We will lose revenue that we currently receive from neighboring states having higher taxes than we do.

There have been over 100 tobacco tax increases nationwide over the past ten years. In each case, the state that increased their tobacco tax exceeded the revenues obtained by the neighboring state that did not. It is based on volume. States that increased their tax sold fewer products, true, but, with the higher price point, obtained greater revenue overall, and, received the public health benefit of decreased use and impacts to their health systems.

FAQs/Common Arguments:

Users will order their tobacco on the internet, or travel to reservations to purchase their tobacco at a cheaper rate.

Federal legislation, called the PACT Act, “Prevent all Cigarette Trafficking”, places significant limitations on those who can ship products, age verification requirements, and come with minimum purchasing requirements…often a 2-carton minimum.

It is important for states to partner with reservations in state to discuss the purchasing requirements and revenue allocations. These vary from state to state.

FAQs/Common Arguments:

Haven’t you guys won all the battles already? Why should we care?

1. The tobacco companies aren’t going away. We can’t either. As long as they continue to target our kids as future smokers, we need to keep working together to try to match their influence.

2. No, we haven’t “won all the battles,” and all progress has been in lieu of the legislature. They are important partners and their support is important. They can act on tax. It is important that they understand the impacts of doing so and how it benefits North Dakota.

3. We should care because tobacco continues to kill over 900 of our family and friends. If 1000 North Dakotans were dying from bird flu, we’d all be freaking out. Why don’t we feel the same way about tobacco?
FAQs/Common Arguments:

Tobacco tax is regressive. It’s a “poor people’s tax”.
Because smoking levels are highest among people with low incomes, the some try to argue that cigarette tax increases are regressive taxes that fall disproportionately hard on lower-income folks. Higher smoking rates among lower-income groups means they are now suffering the most from smoking and will, consequently, benefit the most from any effective new measures to reduce smoking, including increased state tobacco taxes.

The reason cigarette companies – and, often, policymakers who receive tobacco industry contributions – make their regressivity arguments and oppose cigarette tax increases is simple. Cigarette tax increases reduce current smoking and stop kids from starting, thereby shrinking the companies’ profits.

FAQs/Common Arguments:

Tobacco tax is regressive. It’s a “poor people’s tax”. (continued)...

1. Low-income smokers are much more likely to quit because of tobacco tax increases than higher-income smokers.
2. State tobacco-tax increases shift the overall tobacco-tax burden more toward higher-income smokers who can afford to continue using.
3. State cigarette tax increases give many current smokers a “tax cut” because they quit or reduce use.
4. Low-income voters strongly support tobacco-tax increases.
5. State tobacco-tax increases improve the health of low-income smokers and their families and significantly reduce their related costs.

What Can YOU Do?

- Join the tobacco tax coalition being led by in-state partner groups… TFND, ACS-CAN, ALA and more
- Adopt the resolution supporting legislative action
- Educate, Educate, Educate – your local coalition members, policymakers, the public
- Talk to your legislators
- Letter to the Editor, Op-Eds