



## Senate Committee on Finance

March 22, 2017

**TO:** Chairman William J. Conley, Jr.  
First Vice Chairperson Louis P. DiPalma  
Second Vice Chairperson Walter S. Felag Jr.  
Members of the Senate Committee on Finance

**FROM:** American Cancer Society Cancer Action Network  
American Heart Association  
American Lung Association  
Campaign for Tobacco-Free Kids

**DATE:** March 22, 2018

**SUBJECT:** Concerns with Article 4, Sections 6-8

### Position

Our organizations would like to thank the Committee for giving us the opportunity to express our concerns regarding the Governor's FY 2019 Budget Article 4, Section 6 Other Tobacco Products and Sections 7-8 Cigarette Tax. We find it promising that the state is looking at tobacco taxes to address revenue needs but have significant concerns with the current proposal.

Rhode Island ranks near the bottom compared to other states in providing cessation services for smokers and prevention programs for our youth despite being one of the highest cigarette taxed states. If the \$0.25 increase to the existing cigarette tax is adopted, Rhode Island will have the highest cigarette tax in the U.S. but will continue to rank 40<sup>th</sup> in funding essential cessation services and prevention programming for Ocean State residents. Significant cigarette tax increases, and tax parity on all other tobacco products, is a proven way to encourage smokers to quit and prevent kids from ever starting. This minimal increase will have little to no health benefit and simply pad state coffers.

### Tobacco has a deadly impact on Rhode Island families

Tobacco use remains the single largest preventable cause of disease and premature death. More than 16 million Americans are living with a disease caused by smoking. Smoking causes cancer, heart disease, stroke, lung diseases, diabetes, and chronic obstructive pulmonary disease (COPD), which includes emphysema and chronic bronchitis.<sup>i</sup> Lung cancer is consistently one of the top cancer killers in Rhode Island.<sup>ii</sup> Each year, tobacco claims the lives of 1,800 Rhode Islanders.<sup>iii</sup>

Unfortunately, Rhode Island is on the wrong path when it comes to tobacco use. Currently, 14.4% of Rhode Island adults smoke (122,100 residents), which is higher than our neighboring states, and 4.8% of high school

students (2,800) smoke.<sup>iv</sup> It is time to get back to basics and do what we know works in tobacco prevention and cessation - the combination of regular significant tobacco tax increases and investments in tobacco prevention and cessation programs that use proven best practices.

In addition to the lives lost, smoking causes significant monetary costs in Rhode Island. Annual health care costs in Rhode Island directly caused by smoking amount to \$640 million. Medicaid costs caused by smoking in Rhode Island amount to \$216.8 million. The state and federal tax burden from smoking-caused government expenditures is \$1,034 per Ocean State household. Finally, smoking-caused productivity losses in Rhode Island account for \$458.9 million each year.<sup>iv</sup>

### **Significant tobacco tax increases = lives saved**

Increasing the price of tobacco through higher tobacco taxes is one of the most successful ways to keep youth from smoking and help adults quit, saving lives and healthcare costs along the way. Economic studies in peer-reviewed journals have documented that significant cigarette tax or price increases reduce both adult and youth smoking.

**The amount of the tax increase is very important. The \$0.25 increase proposed is inadequate. Cigarette tax increases should be \$1.00 per pack or more to ensure a public health impact. Small increases, like the one proposed, have limited effects on public health because tobacco companies easily undercut these increases with price discounting strategies.** These price discounts occupy a huge part of the industry's marketing and promotional budget because the companies know how effective increasing prices can be on reducing tobacco use. Tobacco companies can easily extend those coupons and discounts to undermine the impact of small tax increases. When the tobacco companies increase the wholesale prices on their products, they know that consumers will only tolerate small increases at a time.

According to the Federal Trade Commission Cigarette Report, retail and wholesale price discounts were the two largest expenditure categories for major manufacturers of cigarettes, representing a combined 84.3 percent of total expenditures.<sup>v</sup>

In contrast, significant cigarette tax increases will have a much larger impact on public health – and the state's economy. Evidence from states shows that significant cigarette tax increases reduce smoking.<sup>vi</sup> For example, the Wisconsin Quit Line received a record-breaking 20,000 calls in the first two months after its \$1.00 per cigarette pack increase (it typically receives 9,000 calls per year).<sup>vii</sup> These efforts to quit by smokers after tax increases translate directly into lower smoking rates.

Increasing the price of tobacco through higher tobacco taxes is one of the most successful ways to keep youth from smoking, help adults quit smoking, save lives and unnecessary health care costs along the way. Very low tax increase amounts will not deliver meaningful health benefits. **The bottom line – a small tax increase that affords no help or encouragement to prevent tobacco use or help people quit is just another tax increase.**

### **\$0.25 cigarette tax increase will not impact public health – please consider \$1.00**

We can no longer ignore the health impact caused by tobacco related illness, and it's time to do more. While significant cigarette tax increases effectively reduce adult smoking and prevent youth initiation, smaller ones only raise more money for the state without measurably improving public health. We urge the Committee to

oppose the \$.0.25 cigarette tax proposal and consider a \$1.00 cigarette tax increase (with adequate funding for tobacco cessation and prevention programs) to truly help improve the health of Rhode Islanders. We further request that the state reinvest in the Tobacco Control Program at the highest level historically of \$3.1 million as we work toward CDC's recommended funding.

### **Tobacco tax revenue should fund tobacco prevention & cessation programs**

Rhode Island must establish sustainable funding for tobacco prevention and cessation programs at levels that meet or exceed Centers for Disease Control and Prevention (CDC) recommendations. **Despite collecting nearly \$140 million in tobacco tax revenue, the state invested a mere \$375,622 in prevention and cessation for FY 2017.** This is unacceptable. The CDC recommends that Rhode Island spend \$12.8 million annually,<sup>viii</sup> leaving significant room for improvement. In fact, Rhode Island ranks a disappointing 40<sup>th</sup> in the country in funding programs that prevent kids from smoking and help smokers quit.<sup>ix</sup>

### **Other Tobacco Products**

Cigar smoking is deadly and addictive and, just like cigarette smoking, produces toxic secondhand smoke. Sales of cigars have been rising fast – especially among kids. One reason is that many kids and smokers do not realize that cigars are still addictive, harmful, and deadly. But another big reason is that **Rhode Island taxes cigars and other tobacco products at much lower rates than cigarette taxes.**

**By under-taxing cigars and other tobacco products, Rhode Island is losing out on millions in revenue.** But more importantly, the failure to tax these products adequately is an immense public health problem because it keeps the prices low, thereby increasing the likelihood that kids try cigars and other tobacco products. For instance, when faced with cigarette tax and price increases, cigarette smokers who might otherwise quit or cutback may turn to under-taxed, less-expensive other tobacco products instead.<sup>ix</sup>

### **Please support tax parity for other tobacco products**

Increasing the cigar tax from \$0.50 to a proposed \$0.80 will produce minimum additional revenue for the state and more importantly, will not have a significant impact on smokers wanting to quit and preventing youth from starting to smoke. **We propose to tax all tobacco products including e-cigarettes at a rate equivalent to the tax on cigarettes.** This tax parity would help reduce tobacco use of other products subject to the new tax increase. It would also significantly reduce the current incentives for people to switch to lower-taxed, lower-cost products in Rhode Island.

At the current cigarette tax rate of \$4.25/pack, tax parity on other non-cigarette tobacco products would be 95% of the wholesale price. At the new proposed rate of \$4.50/pack, tax parity would be achieved if non-cigarette products were taxed at a rate of 101% of the wholesale price. At our recommendation of a new tax rate of \$5.25/pack, tax parity would be achieved if non-cigarette products were taxed at a rate of 117% of the whole sale price.

### **Additional ways to improve taxes on other tobacco products**

We also propose that Rhode Island seriously consider these measures in making state cigar tax rates fair and effective:

- **Match the state's cigar tax rate – for both large and small cigars – to the cigarette tax rate.** Small cigars are often sold in small, inexpensive packages, making them more affordable and accessible to youth. An equitable tax will help price them out of the hands of kids.<sup>ix</sup>

- **Raise the cigar tax rate whenever any other cigarette or tobacco product tax rates are increased to achieve and retain tax parity across all tobacco product categories.**
- **Set cigar tax rates as a percentage of their price.** Unlike cigarettes that always come in packs of 20 sticks, cigars come in many different sizes and weights and are sold in many different ways, such as singles, 20-packs, or 5-packs. That makes it difficult to implement an equitable cigar tax based on the package size, or per-cigar, or by weight. But a tax set as a certain percentage of the wholesale price of a cigar or package of cigars ensures that all cigars will have to pay the same tax rate.<sup>ix</sup>
- **Eliminate any caps on cigar tax rates.** A cap on state cigar taxes is just a subsidy for wealthier smokers who buy and smoke the most expensive brands. By eliminating any existing cap, a state cannot only end that subsidy, but also gain new revenue.<sup>ix</sup>

Raising and equalizing tax rates across all tobacco products will save lives, reduce overall tobacco use, reduce health care cost, and will generate revenue for Rhode Island. If you have any questions or concerns, please feel free to reach out to any of us at the contact information listed below.

Thank you for your consideration.



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<sup>i</sup> US Department of Health and Human Services. 50 Years of Progress: A Report of the Surgeon General, 2014. 2014. Available at: <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/50-years-of-progress-bysection.html>

<sup>ii</sup> American Cancer Society. Cancer Facts & Figures 2018. <https://www.cancer.org/research/cancer-facts-statistics/all-cancer-facts-figures/cancer-facts-figures-2018.html>

<sup>iii</sup> Campaign for Tobacco Free Kids. The Toll of Tobacco in Rhode Island. Updated November 17, 2017. [http://www.tobaccofreekids.org/facts\\_issues/toll\\_us/rhode\\_island](http://www.tobaccofreekids.org/facts_issues/toll_us/rhode_island)

<sup>iv</sup> Campaign for Tobacco Free Kids. The Toll of Tobacco in Rhode Island. Updated March 1, 2017. [http://www.tobaccofreekids.org/facts\\_issues/toll\\_us/rhode\\_island](http://www.tobaccofreekids.org/facts_issues/toll_us/rhode_island)

<sup>v</sup> Federal Trade Commission. "Cigarette Report for 2015." Issued March 2015. Available online at: [https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-cigarette-report-2015-federal-trade-commission-smokeless-tobacco-report/2015\\_cigarette\\_report.pdf?utm\\_source=govdelivery](https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-cigarette-report-2015-federal-trade-commission-smokeless-tobacco-report/2015_cigarette_report.pdf?utm_source=govdelivery)

<sup>vi</sup> TFK Factsheet, Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking), <http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

<sup>vii</sup> Tobacco Tax Increases Are Not Enough – States Must Also Invest in Tobacco Prevention Programs. Campaign for Tobacco-Free Kids. Available at: <https://www.tobaccofreekids.org/assets/factsheets/0221.pdf>

<sup>viii</sup> Broken Promises to Our Children: A State-by-State Look at the 1998 State Tobacco Settlement 18 Years Later – 2016. Available at: <http://www.tobaccofreekids.org/microsites/statereport2017/>

<sup>ix</sup> TFK Factsheet, How to Make State Cigar Tax Rates Fair and Effective, <https://www.tobaccofreekids.org/assets/factsheets/0335.pdf>