



**TESTIMONY OF:  
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**IN SUPPORT OF  
THE TOBACCO TAX INCREASE IN SENATE BILL 175  
BEFORE THE  
SENATE COMMITTEE ON ASSESSMENT AND TAXATION**

**Topeka, KS  
February 13, 2017**

Good afternoon. I'm Jodi Radke, and I am a Regional Advocacy Director at the Campaign for Tobacco-Free Kids. Our mission is to reduce tobacco use and its devastating effects, particularly among kids.

My thanks to Chairwoman Tyson and other members of the Committee for allowing me to submit testimony in support of the tobacco tax increase in Senate Bill 175 and address the tremendous opportunity you have in Kansas to dramatically improve public health by reducing tobacco use, while at the same time raising tens of millions of dollars to address budget issues and help save vital programs here in Kansas. My testimony will cover the benefits of tobacco tax increases, including the specific projected benefits to Kansas from the proposed increase, and then address some of the claims you may hear from the opposition.

Very simply, raising the tobacco tax by \$1.50 per pack is a WIN, WIN, WIN for Kansas. It's a win for public health because it will reduce tobacco use and its devastating health effects. This is why we support the tobacco tax. However, it's also a win for the state budget because, despite declines in consumption, the new tax rate will raise revenues to a higher level that will be maintained for years to come. Finally, as poll results show, it's even a win among voters because Kansas voters favor increasing the tobacco tax.

## **Public Health WIN**

Let's first start with some background – the toll that tobacco takes on Kansas today. According to the U.S. Centers for Disease Control and Prevention (CDC), tobacco use takes the life of 4,400 of your fellow Kansans – your mothers, fathers, brothers, sisters, friends, and other loved ones – every year.<sup>1</sup>

This horrible toll will continue unless we act aggressively. Without action, 9,900 Kansas kids will smoke their first cigarette this year. Another 1,600 will become regular daily smokers, and if current trends continue, 61,000 Kansas kids alive today will die a premature death from tobacco use.<sup>2</sup>

By raising the state's tobacco tax by \$1.50 per pack, Kansas WILL reduce smoking, and all its attendant devastation, especially among kids. While we may not intuitively believe that \$1.50 is enough to make a difference to today's kids, who seem to have more money than any of us ever did as children, the data simply do not lie. When tobacco product prices go up notably, tobacco use goes down, especially among kids.

The science could not be clearer. Based on over 100 studies, experts have concluded that raising tobacco taxes is one of the most effective measures we can take to reduce smoking.<sup>3</sup> The 2014 Surgeon General's Report, *The Health Consequences of Smoking—50 Years of Progress*, found that, "Raising prices on cigarettes is one of the most effective tobacco control interventions."<sup>4</sup> In addition, the National Cancer Institute, the CDC, the Institute of Medicine of the National Academy of Sciences, the President's Cancer Panel, the World Bank, Wall Street tobacco analysts, and even the tobacco companies agree – raising tobacco prices reduces tobacco use.<sup>5</sup>

Now there aren't too many things that public health advocates and the tobacco companies agree on, but this is one. And that's why health groups like mine, along with the American Cancer Society, the American Heart Association, the American Lung Association, and many others, support the tobacco tax increase and why the tobacco companies oppose it.

Kansas made some effort to address the issue two years ago, when the legislature passed a 50-cent increase in the cigarette tax. But that wasn't enough to make an impact on health because tobacco companies can easily nullify such small amounts with price discounts and other promotions. For instance, after Louisiana's 50-cent cigarette tax increase went into effect, cigarettes were being sold in that state with 50-cent coupons attached right on the packs.

Raising the tobacco tax by \$1.50 will be a huge WIN for the health of Kansans. It will keep 16,200 Kansas kids from becoming smokers and encourage 20,000 smokers to quit. Together, this will save 10,200 Kansans from a premature death due to tobacco use. The 2014 Surgeon General's report stated, "Evidence shows that large tax and, hence, price increases will decrease tobacco use each time they are implemented."<sup>6</sup> But the key is to have a large enough increase.

These dramatic gains in health will be further enhanced if Kansas dedicates some portion of the new tax revenues to tobacco prevention and cessation efforts. States that have invested in comprehensive tobacco prevention and cessation programs have reduced tobacco use at rates far greater than the rest of the country, and these declines are in addition to those caused by tobacco price increases.

## **Financial WIN**

Aside from the public health impact, there is another reason that 47 states and DC have raised their tobacco tax more than 100 times since Kansas' 2003 tobacco tax increase, with 28 states and DC increasing their rates multiple times. Even with the declines in tobacco use that occur as a result, these tobacco tax increases ALWAYS result in significant revenue for the state. Simply put, every state that has raised its tobacco tax significantly has seen revenues increase dramatically even as consumption declines.

It is estimated that a \$1.50 increase in the cigarette tax alone will raise at least \$80 million in new revenue in the first year after the tax. This estimate takes into account reductions in smoking as a result of the tax and an increase in tax avoidance in response to the tax. Equalizing the tax on other tobacco products would produce another \$30 million in new revenue, as well as additional benefits for Kansas.

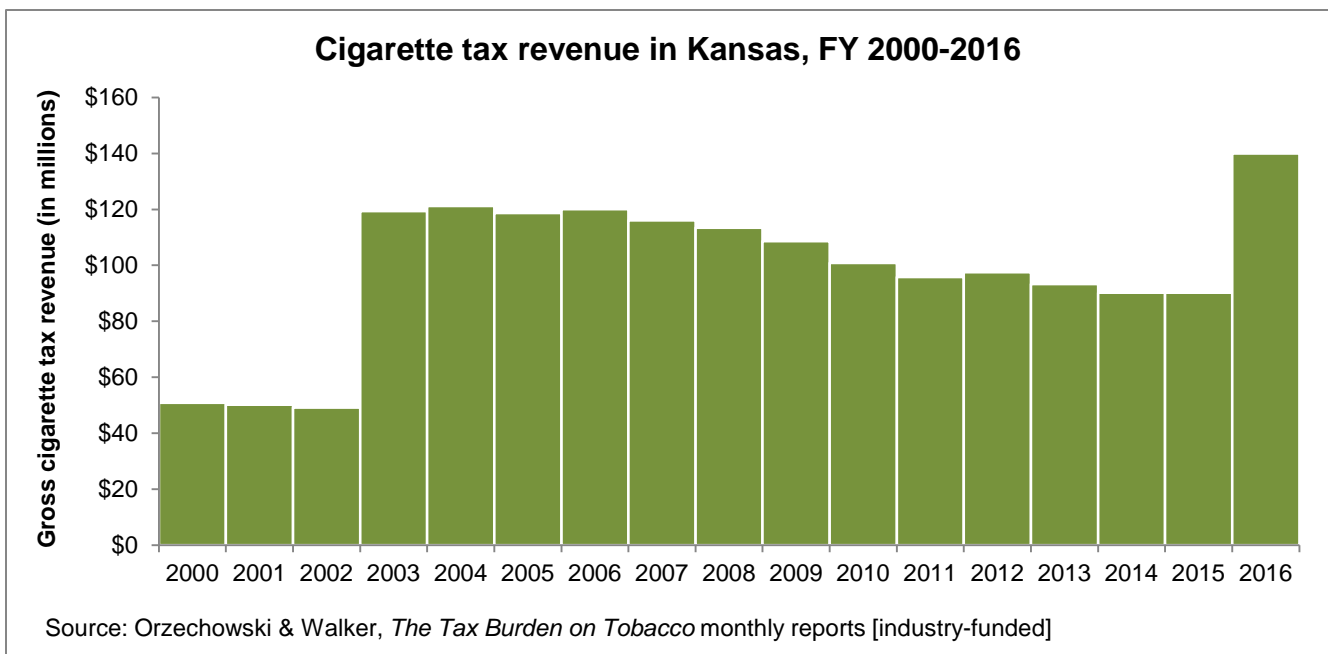
There are countless examples of higher revenues after tobacco tax increases from states all over the country. In the past 10 years, 17 states and Washington, DC, passed \$1 per pack or more increases in their cigarette tax rates: California, Connecticut, Florida, Illinois, Iowa, Maryland, Massachusetts, Minnesota, Nevada, New York, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Washington state, and

Wisconsin. Two of the states, Massachusetts and New York, increased their tax rates by at least \$1 per pack *twice* during that period. These states vary in size and circumstance, but each generated tens or hundreds of millions in new revenue, despite declines in pack sales.

In addition, a \$1.50 increase would not be unusual. Minnesota and New York each have passed increases by \$1.60 per pack within the past 10 years and collected hundreds of millions in new revenue, and just a few months ago, voters in California passed a \$2 per pack increase in the cigarette tax.

We already have data from Kansas' last increase in 2015. A year after the tax went into effect, the state collected over \$50 million in new revenue compared to the year before. And before that, when Kansas' cigarette tax increased from 24 cents to 79 cents in 2002 and 2003, the state generated more than \$70 million in new revenue (an increase of 151%), even though tobacco consumption in the state declined by 26 percent.<sup>7</sup> What's more, this revenue has been consistent.

Revenues from tobacco taxes will decline over time, and that is a good thing because that means fewer people are using tobacco products, but these declines will be gradual; they are predictable, and they are easily adjusted for. As shown in the chart, Kansas' cigarette tax revenues stayed at the higher level of revenue ever since its two cigarette tax increases in 2002 and 2003 and rose again following the 2015 increase. Given Kansas' experience and that of other states, there is no reason to believe the revenues from the 2015 increase won't also remain at its new higher level. The sharper declines in FY 2009 and 2010 reflect the federal tobacco tax increase that went into effect in April 2009.



What's more, as the gradual declines in tobacco tax revenue reflect declines in tobacco use, tobacco-related health care costs, many of which are borne by the state, will decline accordingly. Currently, tobacco-related disease costs Kansas more than \$1.12 billion in direct health care costs each year, much of it borne by taxpayers.<sup>8</sup> Whether they smoke or not, each Kansas household pays \$779 per year to cover these tobacco-related health care costs.

But after the \$1.50 per pack tax increase goes into effect, Kansas will begin saving money from reduced health care costs almost immediately due to declines in tobacco use. Nearly \$20 million in health care costs will be averted in the first five years after the tax increase, from reductions in the costs of treating lung cancer, heart attacks, strokes, and the effects of smoking during pregnancy. More than \$700 million in health care cost savings will accrue over the lifetime of those prevented from becoming smokers and those who quit as a result of the tax increase.

### **Political WIN**

With these fiscal and health benefits, it is no wonder that polls show that a majority of Kansas voters favor increasing the tobacco tax. So the tobacco tax is not only a win for the state's health and its budget; it is also a political win for its supporters.

### **Opposition Arguments**

As you debate this issue, you will hear a lot of talk about cigarette smuggling, or how smokers will avoid the new tax through cross-border sales, which opponents argue will lead to lost business, higher unemployment, and substantial amounts of new revenue for the states bordering Kansas. Of course, these claims are overblown. We are not going to pretend that tax avoidance is non-existent. Indeed, there will be some that try to avoid paying the increased tax. But while some of this will occur, tax avoidance will be nominal, short-lived for most, and, let me be clear, will not come anywhere NEAR offsetting the tremendous benefits of the tobacco tax increase.

The tobacco industry and its allies already have been making their rounds to oppose this tax increase. For instance, the Mackinac Center for Public Policy, along with the Tax Institute, recently issued its annual report claiming to quantify the level of illegal cigarette sales across state borders. There are many reasons to be skeptical of these claims. In fact, the National Research Council and Institute of Medicine comprehensively reviewed the evidence on tobacco smuggling in the U.S. and found that "industry-sponsored estimates of the size of the illicit market tend to be inflated. More generally, concerns have been raised about the quality and transparency of industry-funded research on the illicit tobacco trade."<sup>9</sup> Both groups have a long history of receiving funding from tobacco companies such as Altria (the makers of Marlboro cigarettes), so it's no surprise that they would release something that reflects the position of their funders.

When you hear claims of smuggling, tax evasion and potential for lost revenues, look at the dozens of tax increases over the years and the data showing how much revenue the state

received before and after the cigarette tax increases. Time and time again you will see that the state that raises its tobacco tax does better than a neighboring state that does not.

Altria and its allies have been distributing a flyer showing that cigarette pack sales declined after Kansas' 50-cent increase in 2015. Of course, that is exactly what we knew would happen after the tax increase. It also compares Kansas' pack sales trend to Missouri's, which increased slightly. That's also not a surprise, nor should it be a concern. What Altria's flyer *doesn't* show is that despite the decline in pack sales, Kansas generated over \$50 million in new revenue, while Missouri got a mere \$2 million more. That's still a win for Kansas.

The same thing happened when Kansas last increased its tobacco tax in 2002 and 2003 and Missouri did not. At the same time that Kansas increased its cigarette tax rate twice, most of the other states around Missouri also increased their cigarette taxes. The result? Tobacco tax revenues in Kansas increased by 151 percent – more than \$70 million in new revenue – and the other states around Missouri that increased their cigarette tax rates also saw large revenue increases (Illinois: \$264 million increase; Nebraska: \$24 million increase; Tennessee: \$35 million increase; Arkansas: \$51 million increase).<sup>10</sup> And though some argued all of those increases would be a boon for Missouri because of supposed massive smuggling and cross border sales, Missouri's revenues only increased by 8 percent. So, Kansas took in more than \$70 million in new revenue while Missouri, a much larger state, brought in about one tenth that amount – only \$7 million in new revenue – despite tax rate increases in five nearby states.<sup>11</sup> Which state would you rather be?

More recently, Nevada increased its cigarette tax by \$1 per pack at the same time as Kansas's 2015 increase. Despite Nevada's new rate being \$1.23 higher than Idaho's tax and 93 cents higher than California's tax, the state collected more than \$54 million in new revenue, while Idaho's revenues increased by only \$754,000 and California lost revenue.

One last example. After Minnesota's \$1.60 per pack tobacco tax increase in 2013, the tobacco industry paid for another study claiming that Minnesota's 2013 tax increase led to increases in sales across the border from Minnesota and reductions in employment. A report released by Dr. Lisa Mattson, Director of the Women's Clinic at Boynton Health Service at the University of Minnesota, Dr. Frank Chaloupka, a prominent health economist and professor at the University of Illinois at Chicago, and Dr. Raymond Boyle, Director of Research Programs at ClearWay Minnesota, concluded that the tobacco companies' report, ". . . is consistent with the industry's past efforts to fight tobacco price increases. It fails to meet accepted standards for economic research, and a quick look at real-time data suggests the report's assumptions and conclusions are not based on the actual experiences in Minnesota and its border states."<sup>12</sup> The Mattson report is attached to this testimony.

Here are the facts: on July 1, 2013, Minnesota increased its cigarette tax by \$1.60 per pack, tied for the highest one-time increase in any state. The increase gave Minnesota a tax rate of \$2.83 – more than one dollar per pack higher than two of its four neighboring states (Iowa and South Dakota) and more than two dollars higher than

North Dakota. As a result of the increase, Minnesota received more than \$204 million in new revenue (a 56% increase) in the first 12 months, while its neighboring states with lower cigarette tax rates barely benefited. In nearby Iowa and Wisconsin, revenues and cigarette sales actually decreased during that time, while North Dakota and South Dakota's revenues only increased by 7.9 percent (\$1.7 million) and 0.5 percent (\$285,444), respectively. So, Minnesota took in more than \$200 million in new revenue while North Dakota and South Dakota combined brought in a small fraction that amount – only \$2 million, combined, in new revenue – despite a \$1.60 per pack tax increase right next door.<sup>13</sup> Further, data from the Minnesota Department of Employment and Economic Development show very low rates of unemployment in Minnesota counties near bordering states.<sup>14</sup>

Again, look at these state experiences, including your own, and then ask yourself one question. Which state would you rather be? The one that is reducing smoking, saving lives, and lowering health care costs, all while increasing revenue, or the one with minimal revenue gains, if any, and even fewer public health gains?

Although the opponents' estimates of tax evasion and smuggling are overblown, states can implement several proven measures, such as adopting new tax stamp technology and increasing enforcement, which will help minimize any tax evasion and maximize revenue. California, one of the states that has adopted the new stamp technology and increased enforcement, gained significant increases in tobacco tax collections after doing so, even without an increase in its cigarette tax rate.<sup>15</sup>

Of course the arguments do not end there. The convenience store industry is yet another one of the tobacco industry allies that fights proposals to increase the tobacco tax.<sup>16</sup> While their lobbyists claim that stores will lose substantial revenue and be forced to close as a result of any tax increase, published research shows just the opposite. The number of convenience stores does not decline with tobacco tax increases nor reductions in tobacco use.<sup>17</sup> When people stop purchasing tobacco products, they will continue to buy other products, which contribute to the state's economy, including profits for small businesses.

And those that tell you that a tobacco tax increase is regressive somehow ignore the fact that it is tobacco's disproportionate toll on the health of lower income families that is regressive. The tobacco industry targets low-income Americans with marketing and other promotional activity to get them addicted to these deadly products. Instead, economic studies, reiterated in reports from the U.S. Centers for Disease Control and Prevention, the National Cancer Institute, the World Health Organization, and the International Agency for Research, show that the lower-income smokers are price-sensitive and more likely to quit smoking in response to a price increase than higher-income smokers.<sup>18</sup> Worse yet, the tobacco companies raise their product prices several times per year to generate more company profits with little regard for the impact it might have on low-income smokers. In a 2015 report, Wall Street analysts celebrated the tobacco industry's opportunities to "drive" tobacco sales among those they call "lower-income consumers – i.e. the tobacco consumer."<sup>19</sup> It is hypocritical for the tobacco industry to claim that they

oppose tobacco tax increases out of concern for the lower income population, while at the same time targeting them to increase sales and maximize profits.

### **How many reasons do we need to raise the tobacco tax?**

I've listed several examples of states increasing revenue despite a decrease in tobacco sales – your own experiences in Kansas, a \$1 increase in Nevada, a \$1.60 increase in Minnesota, and increases of more than a dollar in more than a dozen other states. There is nothing unexpected in these results. This is what always happens when a state increases its tobacco tax – cigarette sales go down, tobacco tax revenue goes up, retailers complain, and the tobacco companies mislead.

Because our opponents know that increasing the tobacco tax is good for Kansas and bad for tobacco sales, they are making up or exaggerating reasons to oppose it. Those who tell you it won't reduce smoking are ignoring the science and the conclusions of experts all over the world. Those who tell you it won't raise revenue are denying the real-world experience of every single state that has increased its tobacco tax significantly.

The bottom line is that the tobacco tax increase is a health win and a revenue win. The difference between us and the industry (and its allies) is that we think the decline in tobacco sales is a good thing, but the industry thinks it's a bad thing.

So how many reasons do we need to raise the tobacco tax?

- Is it 16,200 – the number of kids whom the tax increase will keep from becoming smokers?
- Is it \$111 million – the dollars in new cigarette and other tobacco product revenue produced by the tobacco tax?

Members of the committee, this is indeed a great opportunity to improve upon Governor Brownback's proposal by increasing the tobacco tax by \$1.50. While you are making many difficult decisions for Kansas, this should be an easy one. How many times are you presented with a proposal that will save thousands of lives without costing a penny, but will also raise tens of millions of dollars in much-needed revenue for Kansas **and** has the support of voters?

It's time to raise the tobacco tax in Kansas by a meaningful amount. Kansas residents and businesses deserve no less.

Thank you.



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- <sup>2</sup> Estimate based on U.S. Department of Health & Human Services (HHS), “Results from the 2013 National Survey on Drug Use and Health: Summary of National Findings and Detailed Tables,” <http://www.samhsa.gov/data/NSDUH/2013SummNatFindDetTables/DetTabs/NSDUH-DetTabsSect4peTabs1to16-2013.htm#tab4.10a> with the state share of the national number allocated through the formula in CDC, “Projected Smoking-Related Deaths Among Youth—United States,” *Morbidity & Mortality Weekly Report (MMWR)* 45(44):971-74, November 8, 1996 [based on state young adult smoking rates, as updated in CDC, *Sustaining State Programs for Tobacco Control, Data Highlights, 2006*]. HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>.
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- <sup>5</sup> National Cancer Institute, *Changing Adolescent Smoking Prevalence*, Smoking and Tobacco Control Monograph 14, November 2001, <http://cancercontrol.cancer.gov/brp/tcrb/monographs/14/m14.pdf>. Institute of Medicine (IOM), *Ending the tobacco problem: A blueprint for the nation*, Washington, DC: The National Academies Press, 2007, <http://www.iom.edu/Reports/2007/Ending-the-Tobacco-Problem-A-Blueprint-for-the-Nation.aspx>. President’s Cancer Panel, *Promoting Healthy Lifestyles*, 2006-2007 Annual Report, August 2007, <http://deainfo.nci.nih.gov/advisory/pcp/annualReports/pcp07rpt/pcp07rpt.pdf>. IOM, *Taking Action to Reduce Tobacco Use*, Washington, DC: National Academy Press, 1998, [http://www.nap.edu/catalog.php?record\\_id=6060](http://www.nap.edu/catalog.php?record_id=6060). World Health Organization (WHO), WHO Report on the global tobacco epidemic, 2008: The MPOWER package, Geneva: 2008, available from <http://www.who.int/tobacco/mpower/2008/en/>. The World Bank, *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, May 1999, [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/08/02/000094946\\_99092312090116/Rendered/PDF/multi\\_page.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/08/02/000094946_99092312090116/Rendered/PDF/multi_page.pdf). See also, Campaign for Tobacco-Free Kids (CTFK), *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>.
- <sup>6</sup> HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, Atlanta, GA: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>. Additional statements in support of tobacco tax increases are attached to this testimony.
- <sup>7</sup> Kansas increased its cigarette tax rate by 46 cents on July 1, 2002 and again by 9 cents on January 1, 2003 – both during FY 2003, so the calculations compare FY 2002 (before the first rate increase) to FY 2004 (after both increases had been in effect for at least 12 months). Data from Orzechowski & Walker, *The Tax Burden on Tobacco*, 2013 [an industry-funded report].
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<sup>11</sup> Comparing FY 2002 to FY 2004. Data from Orzechowski & Walker, *The Tax Burden on Tobacco*, 2013 [an industry-funded report].

<sup>12</sup> Mattson, LR, Chaloupka, FJ, & Boyle, R, *Get the Facts: Minnesota's 2013 Tobacco Tax Increase is Improving Health*, February 10, 2015, [http://tobacconomics.org/wp-content/uploads/2015/02/2013-Tobacco-Tax-White-Paper\\_FINAL\\_10Feb15.pdf](http://tobacconomics.org/wp-content/uploads/2015/02/2013-Tobacco-Tax-White-Paper_FINAL_10Feb15.pdf).

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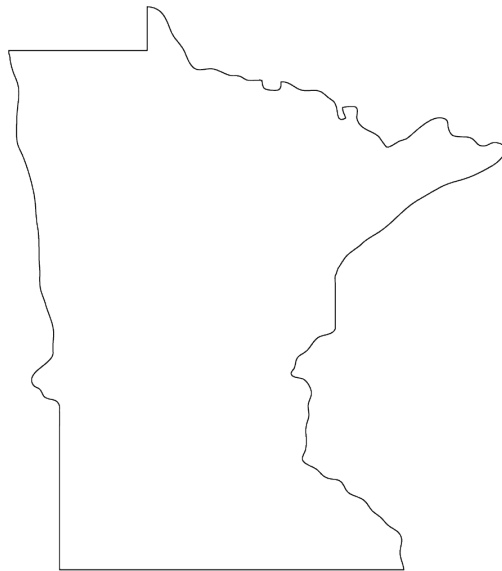
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<sup>17</sup> Huang, J & Chaloupka, FJ, "The Economic Impact of State Cigarette Taxes and Smoke-free Air Policies on Convenience Stores," *Tobacco Control* 22(2):91-6, March 2013.

<sup>18</sup> See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report* 47(29):605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm>.

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**Get the Facts:  
Minnesota's 2013 Tobacco Tax Increase  
is Improving Health**



February 10, 2015

Lisa R. Mattson, MD  
Frank J. Chaloupka, PhD  
Raymond Boyle, PhD, MPH

## Overview

The tobacco industry has a well-known track record of selling dangerous, addictive products and misleading the public about their health effects. That was true in the past and is still true today. Smoking continues to be a leading cause of preventable death and disease in Minnesota. Each year, more than 5,100 Minnesotans die from tobacco-related diseases, while the annual cost of smoking in Minnesota is estimated to be \$2.87 billion in direct health care costs.<sup>1</sup> In addition, more than 55,000 Minnesota middle and high school students are using tobacco.<sup>2</sup>

Tobacco companies know they need to hook users at an early age because 90 percent of adult smokers start before age 18.<sup>3</sup> In fact, each year the tobacco industry spends more than \$164 million in Minnesota alone marketing its deadly products, often using strategies that are proven to be successful with children and adolescents.<sup>4</sup>

Public health groups have worked aggressively to shed light on the tobacco industry's tactics, including exposing its political strategies. A recent example of a tobacco industry tactic is a June 2014 report from Dunham and Associates titled, "The Economic Consequences of the Recent Cigarette Tax Increase in Minnesota." This report is consistent with the industry's past efforts to fight tobacco price increases. It fails to meet accepted standards for economic research, and a quick look at real-time data suggests the report's assumptions and conclusions are not based on the actual experiences in Minnesota and its border states.

## What Data Demonstrate

Research has proven that tobacco price increases are one of the most effective ways of reducing smoking prevalence, preventing youth from starting and saving lives. Strong data now available following the implementation of the 2013 Minnesota tobacco tax increase of a \$1.60 per pack of cigarettes provides further proof of what was already known: raising the price of tobacco benefits the health of all Minnesotans. Several contributing factors describe the success of the tobacco tax increase:

- **Fewer Minnesota youth are smoking.** Since 2011, smoking among Minnesota high school students dropped from 18.1 percent to 10.6 percent.<sup>2</sup> This is the sharpest decline ever recorded by the Minnesota Youth Tobacco Survey (MYTS) and means thousands fewer Minnesota youth will become addicted adults.
- **Fewer adult Minnesotans are smoking.** The 2014 Minnesota Adult Tobacco Survey (MATS) shows that 14.4 percent of adult Minnesotans now smoke. This is the lowest rate ever recorded in the state and a sharp decline from 16.1 percent in 2010, the last time the rate was measured.<sup>5</sup>
- **More Minnesota smokers are quitting.** According to MATS, increasing the price of tobacco supports smokers in quitting. Among smokers who quit in the past year, majorities said that the price increase helped them to make quit attempts (62.8 percent) and to stay smoke-free (62.7 percent).<sup>5</sup>

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<sup>2</sup> Minnesota Department of Health. Teens and Tobacco in Minnesota, 2014 Update: Minnesota Youth Tobacco Survey. 2014.

<sup>3</sup> U.S. Department of Health and Human Services. Results from the 2013 National Survey on Drug Use and Health: Summary of National Findings. Substance Abuse and Mental Health Services Administration, Center for Behavioral Health Statistics and Quality. 2013.

<sup>4</sup> Campaign for Tobacco-Free Kids. The Toll of Tobacco in Minnesota.

2015/[http://www.tobaccofreekids.org/facts\\_issues/toll\\_us/Minnesota](http://www.tobaccofreekids.org/facts_issues/toll_us/Minnesota). 2015.

<sup>5</sup> ClearWay Minnesota<sup>SM</sup>, Minnesota Department of Health. Minnesota Adult Tobacco Survey: Tobacco Use in Minnesota: 2014 Update. 2015.

- **Tobacco sales have decreased.** Minnesota experienced a 24 percent reduction in cigarette sales, or 54.6 million packs, in the 12 months following implementation of the tobacco tax increase compared to the same 12 months of the previous year.<sup>6</sup>
- **While tobacco sales are down, tax revenue is up.** Minnesota generated more than \$204 million in new tax revenue—a 56 percent increase over the previous year—while simultaneously 54.6 million fewer packs of cigarettes were sold.<sup>6</sup>

The tobacco industry's typical response to tobacco tax increases is to assert that they hurt business. In the June 2014 report from Dunham and Associates, tobacco companies attempted to once again make the case that Minnesota is better off supporting the sales of deadly products than improving health and protecting youth from addiction.

Yet, based on actual data from Minnesota and surrounding states, there is little evidence of substantial economic harm from the recent tobacco tax increase:

- **Other states are not benefiting at Minnesota's expense.** A common argument—repeated in the Dunham and Associates report—following a state tobacco tax increase is that people who live or work near the state border will simply travel to a neighboring state to purchase their tobacco products. The report provided no hard evidence of the shift in sales. On the contrary, cigarette sales and tax revenue data in states bordering Minnesota do not demonstrate a significant shift in sales to outside of Minnesota. When comparing the 12 months after implementation of the tax with the same 12 months of the previous year, researchers found:
  - Cigarette revenue and sales in Iowa and Wisconsin actually decreased.<sup>6</sup>
  - In the two border states that saw an increase during this period—North Dakota and South Dakota—collectively, revenues only increased by 2.7 percent (\$2 million) in tobacco tax revenue, compared to Minnesota's 56 percent increase in revenue. Looking at actual packs sold, Minnesota sold 54.6 million fewer packs—a 24 percent reduction—while new sales in these two states only amounted to a total of 4.4 million additional packs (a 5.1 percent increase).<sup>6</sup>
- **There is no evidence of an unemployment problem in Minnesota border counties.** Research demonstrates that unemployment continues to fall below the statewide average in most border counties. Data for December 2014 from the Minnesota Department of Employment and Economic Development shows that 26 of 30 border counties in Minnesota have non-seasonal adjusted unemployment rates below 5 percent.<sup>7</sup> The lowest rate is Rock County at 2.1 percent, which is located next to two border states.

## **Analysis**

Evidence that holds up through independent verification should be counted as fact. In this case, the tobacco industry's purpose with the Dunham and Associates report is to deceptively promote its profits before Minnesotans' health. After all, tobacco companies will see their profits fall when more people quit, fewer youth become addicted and Minnesotans' health improves.

The tobacco industry does not offer a comprehensive representation of the facts. For example, if Minnesotans are purchasing fewer cigarettes in state, the industry asserts that they must be buying

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<sup>6</sup> Orzechowski & Walker. The Tax Burden on Tobacco monthly reports. 2014.

<sup>7</sup> Minnesota Department of Employment and Economic Development. County Unemployment Rates. <http://mn.gov/deed/data/current-econ-highlights/county-unemployment.jsp>. 2014.

them outside of Minnesota, off the Internet, on Native American reservations or illegally. The better, fact-driven assumption is that Minnesotans are smoking less, especially when the research shows that cigarette sales are down, quit attempts are up and fewer Minnesotans are smoking.

Additionally, the tobacco industry does not seek to determine how Minnesotans who are smoking less are using their money. It is highly likely that people who no longer smoke or smoke fewer cigarettes are instead using this money to buy other goods and services or increasing their savings.<sup>8,9</sup> Unlike tobacco industry-sponsored studies, economic-based studies consider the employment impact of shifting consumer spending from tobacco products to other expenditures that are more likely to be produced locally.

A systematic review of 34 peer-reviewed studies found that most arguments the tobacco industry uses to influence tobacco taxes are unsupported by the evidence.<sup>8</sup> This includes the industry argument that tax increases will negatively impact local businesses and lead to cross-border sales.<sup>8,10</sup> Research shows that convenience stores are more profitable in states with higher tobacco taxes, also likely reflecting shifts in spending from tobacco products to other products, as well as the store markups that raise prices by more than tax increases. As a result, tobacco revenues are maintained even as sales fall.<sup>10</sup>

The Dunham and Associates report—a single study commissioned by the tobacco industry and not subject to peer-review—cannot stand up to independent science. Furthermore, the Dunham and Associates report does not account for the economic benefit of healthier Minnesotans. Minnesota’s decision to adopt the \$1.60 per pack increase is proving to be advantageous to the overall health and wellness of the state, and economic-based studies predicted this outcome before the tax increase’s passage.

Maintaining and increasing the price of tobacco is an important component of a multi-pronged successful strategy to prevent Minnesotans, and especially the state’s youngest and most vulnerable populations, from starting to smoke. Every 10 percent increase in the real price of tobacco reduces the number of youth who smoke by more than 5 percent<sup>11</sup> and the number of youth who start smoking by 10 percent.<sup>12</sup> Youth are two to three times more responsive than the general population to price increases and are more likely to quit or cut back on smoking in order to avoid the cost.<sup>13</sup>

According to credible data, the 2013 tobacco tax increase shows that price increases work. The tobacco industry does not agree, but the facts say differently.

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<sup>8</sup> IARC Handbooks of Cancer Prevention. Effectiveness of Tax and Price Policies for Tobacco Control. Tobacco Control. Vol. 14. 2011.

<sup>9</sup> Warner, et al. Employment Implications of Declining Tobacco Product Sales for the Regional Economies of the United States. Journal of the American Medical Association. 275(16): 1241-1246. 1996.

<sup>10</sup> Huang J, Chaloupka FJ. The economic impact of state cigarette taxes and smoke-free air policies on convenience stores. Tobacco Control. 22(2): 91-96. 2013.

<sup>11</sup> Chaloupka FJ, et al. The Impact of Price on Youth Tobacco Use: Changing Adolescent Smoking Prevalence. Tobacco Control. Monograph 14. 2001.

<sup>12</sup> Tauras JA, et al. Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis. National Bureau of Economic Research. 2001.

<sup>13</sup> United States Department of Health and Human Services. Reducing Tobacco Use: A Report of the Surgeon General. 2000.

### **About the Authors**

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