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WRITTEN TESTIMONY OF PETER FISHER, VICE PRESIDENT FOR STATE ISSUES

**IN SUPPORT OF
POLICY OPTION #5: UNIFIED TAXATION OF TOBACCO PRODUCTS**

BEFORE THE DC TAX REVISION COMMISSION

November 12, 2013

The Campaign for Tobacco-Free Kids is pleased to submit this written testimony in support of Washington, DC's efforts to simplify and modernize the D.C. tax code regarding taxable tobacco products. The Campaign for Tobacco-Free Kids is the nation's largest non-profit, non-governmental advocacy organization solely devoted to reducing tobacco use and its deadly toll by advocating for public policies that prevent kids from smoking, help smokers quit, and protect everyone from secondhand smoke. As part of our efforts, we have been tracking and providing technical assistance on tobacco tax policies at the local, state, federal, and international levels for over 10 years.

First, we would like to commend the DC Tax Revision Commission for considering *Policy Option #5: Unified Taxation of Tobacco Products*. Tobacco remains this nation's number one preventable cause of premature death and disease, killing 400,000 Americans annually, including more than 700 in the District each year alone.¹ It is critical that states and local communities take thoughtful, evidenced-based steps to reduce the number of kids who start using tobacco and encourage and help tobacco users to quit. Improving tobacco tax policies is one of those evidence-based strategies to reduce tobacco use, as supported by the U.S. Surgeon General, the U.S. Centers for Disease Control and Prevention, and health economists worldwide. Even the tobacco industry admits that tobacco taxes reduce tobacco use.²

Second, we want to express our support for the proposed changes to the current tax system on non-cigarette tobacco products (other tobacco products or OTP) in the District that were outlined broadly in Policy Option #5 and clarify why these improvements will benefit the District. Because the Commission's goals are related to DC's tax system and business burdens, this testimony will mostly focus on those elements.

Benefits to Revenues

In addition to discouraging smokeless and other non-cigarette tobacco use, bringing the tax rates on OTP to parity will generate new revenue for the city because, as with cigarettes, the declines in use will be more than offset by the increase in tax collected per unit.

The Commission may hear claims that residents will still avoid the tax by shopping in Maryland or Virginia, but evidence from states show that these claims are highly exaggerated. As shown in case after case, a state that significantly increases its tax rate generates much more revenue than any neighboring state. In the one example of a state that reduced its tobacco tax rates in an attempt to take advantage of perceived crowds of cross-border shoppers, New Hampshire actually lost millions in revenue over the two years that the reduced rates were in effect. The state has since restored its tax rates to the levels before the decrease. The District should not make its tobacco tax policy decisions – particularly if they minimize the District’s revenue potential – dependent on other states.

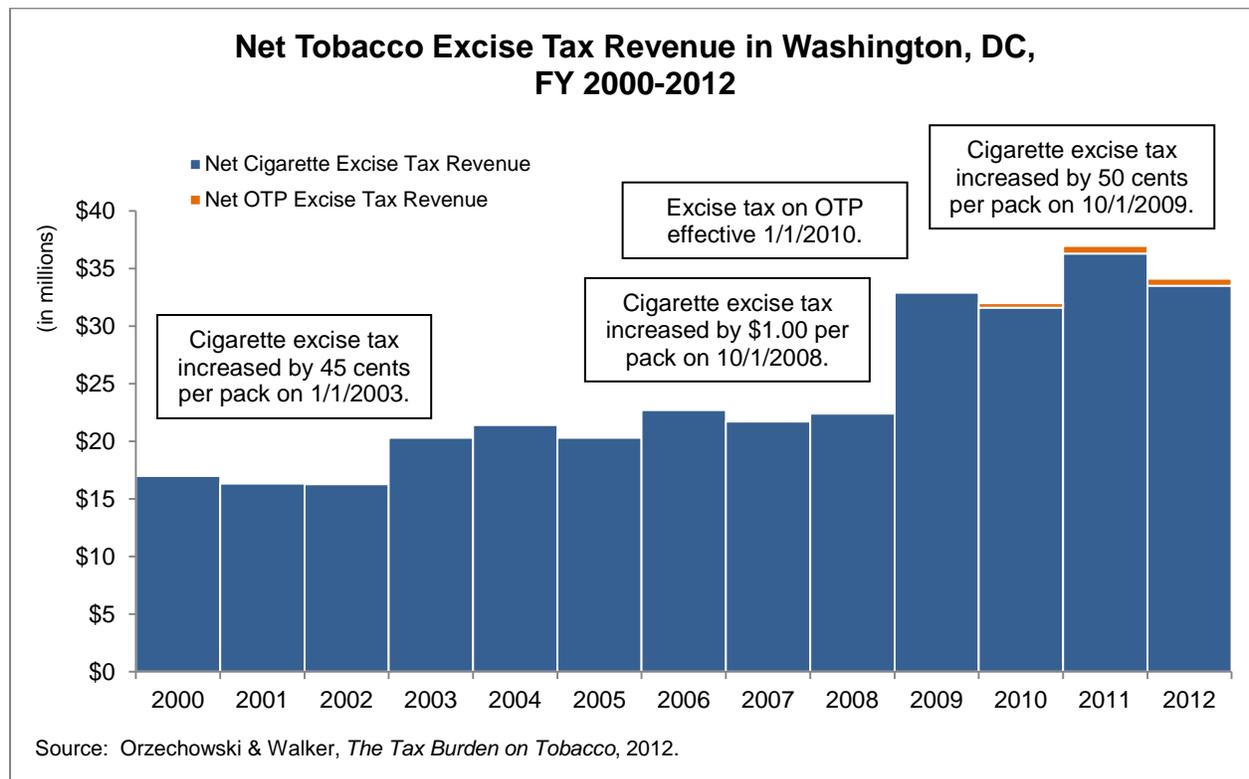
The current system applies different tax rates to some tobacco products and no tax at all to others, which makes the taxes difficult to administer and enforce. This system is ineffective for economic and public health purposes but can be improved through simple measures:

- By applying the same percentage-of-wholesale price tax rate across all OTP, administration and enforcement would be much simpler. Better enforcement would improve compliance and revenue collections.
- Tying the new tax rate on non-cigarette tobacco products to the cigarette tax rate, as a percentage of the average wholesale price of cigarettes, would ensure that the tax rates would always be equal whenever the cigarette tax rate is increased. This would also simplify the work for the Council because the non-cigarette tobacco tax rate would change automatically with the cigarette tax rate.
- In addition, the DC Tax Revenue Commission should consider adding a minimum tax on OTP by category to ensure that low-priced bargain brands are adequately taxed. Again, this will discourage use while also producing additional revenue.

To maximize the effects of the tobacco tax changes and generate as much revenue as expected, we also recommend that the District:

- Implement an “inventory tax” or “floor stocks tax” as part of implementation to ensure that all of the tobacco products in retailer and wholesaler inventory on the date that the tax changes go into effect will be subject to the new tax rates. This would prevent retailers and wholesalers from stocking up on tobacco products at the lower tax rate and avoid paying the higher tax rate until they have sold off all of their stocks.
- Set the effective date as soon after approval as possible, to minimize the amount of time that people can purchase products at the lower tax rate. A longer transition period allows consumers more time to stock up on tobacco products at the pre-increase tax rate and thus delays the effect of the tax on use. It also delays the collection of the higher tax and resulting revenues.

Tobacco tax revenues are relatively reliable and stable over time, unlike some other revenue sources. The chart below, that was also included in the DC Tobacco Free Coalition’s August letter to the Commission, shows DC’s trend in tobacco tax revenue: jumps in revenue because of rate increases, followed by years of relative stability until the next increase.



Benefits to Businesses

One of the Commission’s goals is to “encourage job growth and creation.” While some claim that tobacco tax increases will hurt businesses, studies repeatedly show that that is not the case. Instead, cigarette tax increases have been associated with no reduction in the number of convenience stores and no overall decline in employment in tobacco retail stores.³ When people stop buying tobacco products, the money doesn’t disappear forever; they spend that extra money on other products that still benefit businesses and generate other tax revenue for the District.

Businesses will also benefit from improved work productivity as a result of employees who quit using tobacco. While most of the research has been on reduced efficiency among cigarette-smoking employees, nicotine itself plays a role in reduced concentration – particularly if employees are suffering from nicotine withdrawal and/or are anticipating his or her next break to use tobacco products. Tobacco use is also associated with longer hospital stays and more absent days from work due to illness, whether from a tobacco-caused disease or longer recovery time.⁴

Benefits to Residents

While we recognize that this Commission's focus is purely on fair and effective tax policies, there are actually multiple benefits of improving the District's tobacco tax system beyond the revenue benefits. The proposed changes will also create lasting public health benefits, including saving lives and health care dollars.

Policy Option #5 listed as a "con" a common claim against improving tobacco tax policy: the possibility of hurting the lower-income population, otherwise known as the "regressivity" argument. It is certainly true that lower-income groups have higher smoking rates – and that is precisely the reason tobacco tax increases are needed. Tobacco use itself is regressive because of the disproportionate toll it takes on the health and economy of lower-income families. They are more likely to suffer from the health problems associated with tobacco use and not have access to resources to quit. However, research shows that this population is sensitive to price changes and is more likely to quit as a result of a price increase than higher-income groups. That means that lower-income families will disproportionately benefit from a tobacco tax increase – that's progressive.⁵ Because they will quit more in response to the price increase, they will also pay proportionately less of the new tax than wealthier tobacco users.

Again, we commend the DC Tax Revision Commission for considering a strong policy to improve the District's tobacco tax system. The proposed changes in Policy Option #5 are based on evidence and the science. This is one policy that fits the Commission's economic goals while also making a positive impact on the public health of the District's residents.

Thank you.

¹ U.S. Centers for Disease Control and Prevention (CDC), "State-Specific Smoking-Attributable Mortality and Years of Potential Life Lost—United States, 2000-2004," *Morbidity and Mortality Weekly Report (MMWR)* 58(2), January 22, 2009 CDC's STATE System (average annual deaths from 2000-2004), <http://apps.nccd.cdc.gov/StateSystem/systemIndex.aspx>.

² See Campaign for Tobacco-Free Kids (TFK) factsheet, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>, and the references cited therein.

³ 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. Ribisl, KM, Evans, WN, & Feighery, EC, "Falling cigarette consumption in the U.S. and the impact upon tobacco retailer employment," in Bearman, P, Neckerman, KM, & Wright, L, eds., *After Tobacco: What would happen if Americans stopped smoking?*, New York: Columbia University Press, 2011. See also, TFK factsheet, *State Cigarette Tax Increases, Retailers, and Jobs*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0330.pdf>.

⁴ Lundborg, P, "Does smoking increase sick leave? Evidence using register data on Swedish workers," *Tobacco Control* 16:114-118, 2007. Halpern, MT, et al., "Impact of smoking status on workplace absenteeism and productivity," *Tobacco Control* 10(3):233-238, September 2001; Javitz, HS, et al., "Financial burden of tobacco use: An employer's perspective," *Clinics in Occupational and Environmental Medicine* 5(1):9-29, 2006.

⁵ See also, TFK factsheet, *State Cigarette Tax Increases Benefit Lower-Income Smokers and Families*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0147.pdf>.