

Testimony by Bill Godshall, Executive Director, Smokefree Pennsylvania, to the PA Senate Finance Committee (February 13, 2009)

Thank you for this opportunity to comment on Governor Rendell's tobacco tax proposal, which Smokefree Pennsylvania strongly supports because it begins to hold Other Tobacco Products (OTP) fiscally accountable for the health costs they impose upon the Commonwealth, because it will reduce consumption of OTP (especially among youth), and because it taxes the most hazardous tobacco product (cigarettes) at a higher rate than less hazardous OTP.

In the past decade, nationwide consumption of little cigars has tripled, while consumption of large cigars has increased by 50%. Since 2002, nationwide consumption of smoking tobacco (mostly Roll Your Own) has doubled, while consumption of moist snuff has increased by 50%. In contrast, nationwide consumption of cigarettes has declined by 20% during the past decade, and by 40% in the past three decades. Just as the cigarette industry remains highly profitable as cigarette volumes decline, cigar and smoking tobacco industries will remain profitable as their volumes decline.

As others have pointed out, PA is the only state that doesn't tax smokeless tobacco products, and PA is one of just three states that don't tax cigars.

The recently enacted federal SCHIP law (signed by President Obama last week) will reduce nationwide cigarette consumption (and PA cigarette tax revenue) by about 7%. So the governor's proposed \$.10/pack cigarette tax increase is needed just to maintain PA cigarette tax revenue at the current level. Although not under consideration by this committee, an additional \$1 - \$1.50 per pack cigarette excise tax increase is needed for state taxes (along with the tobacco settlement) to recover all cigarette healthcare costs incurred by the Commonwealth.

Although cigarettes and most smokeless tobacco products are highly addictive (creating dependence), cigarettes are 100 times deadlier than smokeless tobacco products, and impose far greater healthcare costs on the Commonwealth. And since cigarette smokers who switch to smokeless tobacco reduce their health risks almost as much as if they quit all tobacco, smokeless tobacco products should be taxed at a lower rate than cigarettes.

Compared to cigarettes, cigars (especially large cigars) are less addictive, pose fewer health risks, and impose far fewer healthcare costs. Those who smoke cigars like cigarettes face similar health risks, and tobacco smoke pollution from cigars and cigarettes poses similar risks. But unlike cigarette smokers, most cigar smokers don't inhale smoke, and don't smoke multiple times daily. Accordingly, cigars also should be taxed at a lower rate than cigarettes.

OTP Taxation Methods

Some health groups advocate taxing OTP as a percentage of price (i.e. ad valorem). But Smokefree Pennsylvania strongly supports Governor Rendell's proposal to tax cigars by

the piece, and smokeless and smoking tobacco by weight, because doing so is beneficial for public health and fairer to all competitors in the OTP market. It makes no public health or economic sense to tax a \$10 cigar at 100 times the rate of a \$.10 cigar (since both are similarly hazardous), or to tax a \$4.50 can of moist snuff at three times the rate of a \$1.50 can (since both are similarly hazardous).

Moist Snuff

According to industry data, 58.8 million cans of moist snuff were sold/consumed in PA in 2007. Since most cans of snuff contain 1.2 ounces of tobacco, the governor's proposed tax of \$.36/ounce translates to \$.43/can. Taking into account recent annual sales increases, as well as the impact of both federal SCHIP and the governor's proposal, about 63 million cans of moist snuff will be consumed in PA next year, generating \$27 million annually in PA tax revenue.

Chewing Tobacco

According to the USDA, 35 million pounds of chewing tobacco was consumed nationwide in 2007. Taking into account recent annual sales declines, the impact of both SCHIP and the governor's proposal, and assuming Pennsylvanians consume a similar share of the nationwide market as moist snuff (i.e. 5.9%), about 1.8 million pounds of chewing tobacco will be consumed next year in PA, generating \$10 million annually in PA tax revenue.

Cigars

According to the USDA, nearly 10 billion cigars were consumed nationwide in 2007, of which half were little cigars and half were large cigars. The cigar tax increases in SCHIP will reduce nationwide consumption of little cigars by about 20%, and of large cigars by about 8%.

Assuming Pennsylvanians consume a similar share of the nationwide cigar market as moist snuff (i.e. 5.9%), 240 million little cigars and 275 million large cigars will be consumed next year in PA. If the governor's proposed \$.036/cigar tax is approved, about 215 million little cigars and 265 million large cigars will be consumed in Pennsylvania, generating about \$17 million annually in PA tax revenue.

Several large cigar manufacturers/distributors/retailers in Pennsylvania sell a large (but uncertain) amount of cigars to out-of-state consumers. The governor's modest tax proposal is unlikely to prompt any to relocate operations to other states (as some have threatened), but is likely to generate \$1 - \$4 million annually in PA tax revenue.

Smoking Tobacco

According to the USDA, 20 million pounds of smoking tobacco (the vast majority of which is Roll Your Own) was consumed nationwide in 2007. Taking into account the

impact of both SCHIP and the governor's proposal, and assuming Pennsylvanians consume a similar share of the nationwide market as moist snuff (i.e. 5.9%), .9 million pounds of smoking tobacco will be sold in PA next year, generating about \$5 million in PA tax revenue.

Summary

Governor Rendell's tobacco tax proposal will hold tobacco products more fiscally accountable for the costs they impose on the Commonwealth, will reduce consumption in all OTP categories (especially among youth), and will generate needed tax revenue. At the same time, it won't impose undue hardship on the tobacco industry, which will pass the taxes along to consumers as a cost of business.

Although some Senators have expressed opposition to any new taxes, the alternative to this modest and reasonable tobacco tax proposal is to continue forcing the majority of Pennsylvanians (who don't use tobacco) to subsidize the healthcare costs of tobacco.

Smokefree Pennsylvania respectfully urges your support, and will be pleased to answer any questions or provide addition information.

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Estimated impact of Governor Rendell's OTP tax proposal

Decline in OTP Consumption

Moist Snuff - 4%
Chewing Tobacco - 8%
Cigars - 7%
Smoking Tobacco - 8%

OTP Tax Revenue for PA

Moist Snuff - \$27 million
Chewing Tobacco - \$10 million
Cigars - \$18-\$21 million
Smoking Tobacco - \$5 million
Total OTP Revenue - \$60-\$63 million/year