

**Initiative #143
Increase Cigarette and Tobacco Taxes**

1 **Amendment ? proposes amending the Colorado Constitution to:**

- 2 ◆ increase the state tax on a pack of cigarettes from \$0.84 to \$2.59;
- 3 ◆ increase the state tax on other tobacco products from 40 percent to
4 62 percent of the price; and
- 5 ◆ distribute the new tax money for medical research, tobacco-use
6 prevention, doctors and clinics in rural or low-income areas, veterans'
7 services, and other health-related programs.

8 **Summary and Analysis**

9 **Existing taxes on cigarettes.** The federal government collects a tax of \$1.01 on
10 each pack of 20 cigarettes. Additionally, every state collects a cigarette tax.
11 Colorado's cigarette tax is 84 cents per pack. Of this amount, 64 cents is required to
12 be spent on health-related programs identified in the Colorado Constitution, including
13 Medicaid, children's health care, tobacco education programs, and disease prevention
14 and treatment. The remaining 20 cents is spent on various state and local
15 government programs. Local governments may choose not to collect a cigarette tax
16 in order to receive a share of the state tax. Since 1973, no local government has
17 collected a cigarette tax.

18 **Existing taxes on other tobacco products.** Both the federal and state
19 government collect taxes on non-cigarette tobacco products, including cigars, pipe
20 tobacco, snuff, dip, and chewing tobacco. Existing taxes do not apply to e-cigarettes.
21 The federal tax is calculated according to the product's weight or price. Colorado's
22 state tax is equal to 40 percent of the manufacturer's list price of the product. Of this
23 amount, half is spent on the same health programs as the cigarette tax, and half is
24 spent on other state government programs. Some local governments collect
25 additional taxes on tobacco products.

26 **Existing cigarette and other tobacco taxes.** Colorado collected about
27 \$197.9¹ million from cigarette and tobacco taxes in state budget year 2015.¹ Of this
28 amount, \$142.2¹ million was spent on health-related programs as required in the
29 Colorado Constitution, and \$55.7¹ million was spent on other state and local
30 government programs.

¹Budget year 2015-16 data will be used once data are available.

1 State sales taxes are collected on some services and most goods, including
 2 cigarettes and tobacco products. Sales taxes are spent on the state's general
 3 operating budget.

4 **Additional taxes on cigarettes and tobacco products in Amendment ?.** The
 5 measure increases the cigarette tax by \$1.75 per pack of 20 cigarettes and the tax on
 6 other tobacco products by 22 percent of the manufacturer's list price. Neither the
 7 existing taxes nor the additional taxes in Amendment ? apply to e-cigarettes.
 8 Revenue from the new taxes is exempt from the state's constitutional revenue limit.

9 **Distribution of new tax revenue in Amendment ?.** The distribution of the
 10 money generated from the additional taxes is shown in Figure 1.

11 **Figure 1**
 12 **Distribution of Money Generated From Additional Taxes Under Amendment ?**

Purpose	Distribution
Spending on health-related programs funded by previously approved tobacco taxes, including Medicaid, children's health care, tobacco education programs, and disease prevention and treatment	18%, up to \$36 million annually. Any amount over \$36 million will be distributed proportionally to the other uses.
Research grants to study tobacco-related health problems	27%
Education and prevention, and other programs encouraging people to stop using tobacco	16%
Grants to improve health, find employment, and prevent homelessness for veterans	14%
Grants for child and adolescent mental health and substance abuse prevention and treatment	10%
Construction or improvements to community health centers or providers that serve predominantly low income patients	10%
Student loan repayment and training for health care professionals working in rural or underserved areas of the state	5%

32 Amendment ? requires the state legislature to maintain 2016 funding levels for
 33 existing health-related programs in Figure 1 and use the new tax revenue to expand
 34 the existing programs.

*For information on those issue committees that support or oppose the measures on the ballot at the **November 8, 2016**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

1 **Arguments For**

2 1) Higher prices for cigarettes and tobacco products have been shown to deter
3 smoking and tobacco use, especially among children and young adults. When
4 cigarette taxes were last increased in 2005, the number of cigarettes consumed
5 per person in Colorado fell by 12.6 percent. Tobacco use is a leading cause of
6 preventable diseases like cancer, heart, and lung disease, contributing to
7 5,100 deaths in Colorado per year. Reducing smoking and tobacco use will improve
8 the health of Colorado residents.

9 2) Dedicating cigarette and tobacco tax revenue to health care and research is
10 one way for users of tobacco to pay for the health care burden they place on the state
11 while benefitting from the taxes they pay under Amendment ?. The revenue from the
12 proposed tax increase will fund health programs, research, and benefits for Colorado
13 veterans, people with mental health diagnoses, and rural health care providers.
14 Tobacco use increases direct health care costs in Colorado by an estimated
15 \$1.9 billion annually, with additional health care costs related to secondhand smoke.
16 Under Amendment ?, tobacco users will pay more of these costs.

17 **Arguments Against**

18 1) Amendment ? is a \$315.7 million tax increase. The measure creates a
19 constitutional requirement that revenue from the new taxes be spent on specific
20 programs, even if these programs are ineffective at reducing the cost of tobacco use.
21 Unless voters approve another constitutional change, the spending priorities in the
22 measure will receive taxpayer funding indefinitely. As tobacco use declines,
23 Amendment ? will lock in state spending on unnecessary programs even when new
24 needs are identified in the state budget.

25 2) Tripling the tax on cigarettes is a dramatic increase that hurts low-income
26 tobacco users the most. Recent studies have shown that people with lower incomes
27 are more likely to use tobacco products and less able to afford a tax increase.
28 Nationally, more than a quarter of people in poverty smoke cigarettes, and tobacco
29 users with low incomes spend about 14 percent of their household income on tobacco
30 products. Because these products are addictive, tobacco users may continue using
31 tobacco even after taxes are increased. Low-income tobacco users who are unable to
32 quit will subsidize programs that benefit non-tobacco users, taking money out of
33 already tight household budgets.

1 **Estimate of Fiscal Impact**

2 **State revenue and spending.** Amendment ? is expected to increase new state
 3 tax revenue by \$315.7 million in state budget year 2017-2018, the first full year in
 4 which the new tax will be in effect. The higher cost of cigarettes is expected to reduce
 5 tobacco consumption and revenue from existing taxes by \$16.7 million. The net
 6 impact to state revenue under Amendment ? is expected to be \$299.0 million in state
 7 budget year 2018. The amendment outlines how the new revenue from the tax
 8 increase must be spent, shown below in Figure 2. All of these programs will be
 9 administered by either the Colorado Department of Public Health and Environment or
 10 the Department of Health Care Policy and Financing.

11 **Figure 2**
 12 **Estimated Revenue From Additional Taxes Under Amendment ?**
 13 **State Budget Year 2017-2018**

Purpose	Estimated Amount
Spending on health-related programs funded by previously approved tobacco taxes, including Medicaid, children's health care, tobacco education programs, and disease prevention and treatment	\$36 million
Research grants to study tobacco-related health problems	\$92 million
Education and prevention, and other programs encouraging people to stop using tobacco	\$55 million
Grants to improve health, find employment, and prevent homelessness for veterans	\$48 million
Grants for child and adolescent mental health and substance abuse prevention and treatment	\$34 million
Construction or improvements to community health centers or providers that serve predominantly low income patients	\$34 million
Student loan repayment and training for health care professionals working in rural or underserved areas of the state	\$17 million

33 Because Amendment ? takes effect January 1, 2017, state revenue will increase
 34 by approximately \$149.5 million, and costs will increase in the Colorado Department of
 35 Public Health and Environment, the Department of Health Care Policy and Financing,
 36 and the Department of Revenue in budget year 2016-17.