

# Blue Book

## Amendment #72 Increase Cigarette and Tobacco Taxes

1 **Amendment 72 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 government  
15 programs. Local governments may choose not to collect a cigarette tax in order to  
16 receive a share of state revenue. Since 1973, no local government has collected a  
17 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 sales  
25 taxes on tobacco products.

26       **Existing cigarette and other tobacco taxes.** Colorado collected about  
27 \$200.3 million from cigarette and tobacco taxes in state budget year 2015-16. Of this  
28 amount, \$143.7 million was spent on health-related programs as required in the  
29 Colorado Constitution, and \$56.6 million was spent on other state and local  
30 government programs.

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



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*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, and 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 an  
10 important way to offset the health care burden and cost tobacco use places on the  
11 state. Tobacco use increases direct health care costs in Colorado by an estimated  
12 \$1.9 billion annually, with additional health care costs related to secondhand smoke.  
13 The revenue from the proposed tax increase will fund health programs, research, and  
14 benefits for Colorado veterans, people with mental health diagnoses, and rural health  
15 care providers.

## 16 **Arguments Against**

17 1) Amendment 72 is a \$315.7 million tax increase. The measure creates a  
18 constitutional requirement that revenue from the new taxes be spent on specific  
19 programs, even if these programs are ineffective at reducing the cost of tobacco use.  
20 Unless voters approve another constitutional change, the spending priorities in the  
21 measure will receive taxpayer funding indefinitely. As tobacco use declines,  
22 Amendment 72 will lock in state spending on unnecessary programs even when new  
23 needs are identified in the state budget.

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

1 **Estimate of Fiscal Impact**

2 **State revenue and spending.** Amendment 72 is expected to increase new state  
 3 tax revenue by \$315.7 million in state budget year 2017-18, the first full year in which  
 4 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 72 is expected to be \$299.0 million in state  
 7 budget year 2017-18. The amendment outlines how the new revenue from the tax  
 8 increase must be spent, shown below in Table 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 **Table 2**  
 12 **Estimated Revenue From Additional Taxes Under Amendment 72**  
 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 issues  | \$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     |

32 Because Amendment 72 takes effect January 1, 2017, state revenue will increase  
 33 by approximately \$149.5 million, and costs will increase in the Colorado Department of  
 34 Public Health and Environment, the Department of Health Care Policy and Financing,  
 35 and the Department of Revenue in budget year 2016-17.

1 **State Spending and Tax Increases**

2 Article X, Section 20 of the Colorado Constitution requires that the following fiscal  
3 information be provided when a tax increase question is on the ballot:

- 4 ♦ estimates or actual amounts of state fiscal year spending for the current  
5 year and each of the past four years with the overall percentage and  
6 dollar change; and
- 7 ♦ for the first full year of the proposed tax increase, an estimate of the  
8 maximum dollar amount of the tax increase and of state fiscal year  
9 spending without the increase.

10 “State fiscal year spending” is a legal term in the Colorado Constitution. It equals  
11 the amount of revenue subject to the constitutional spending limit that the state is  
12 permitted to keep and either spend or save for a single year. Table 3 shows state  
13 fiscal year spending from FY 2012-13 through FY 2016-17.

14 **Table 3**  
15 **State Fiscal Year Spending, FY 2012-13 to FY 2016-17**

|   | Actual<br>FY 2012-13 | Actual<br>FY 2013-14 | Actual<br>FY 2014-15 | Preliminary<br>FY 2015-16 | Estimated<br>FY 2016-17 |
|---|----------------------|----------------------|----------------------|---------------------------|-------------------------|
| Fiscal Year<br>Spending   | \$11.11<br>billion   | \$11.69<br>billion   | \$12.36<br>billion   | \$12.90<br>billion        | \$13.08<br>billion      |
| Four-Year Dollar Change in State Fiscal Year Spending: \$1.97 billion |                      |                      |                      |                           |                         |
| Four-Year Percent Change in State Fiscal Year Spending: 17.7 percent  |                      |                      |                      |                           |                         |

22 *\*FY = fiscal year. The state's fiscal (or budget) year begins on July 1.*

23 Table 4 shows the revenue expected from the new tax, and state fiscal year  
24 spending without the tax, for FY 2017-18, the first full fiscal year for which the increase  
25 would be in place.

26 **Table 4**  
27 **State Fiscal Year Spending and the Proposed Cigarette**  
28 **and Tobacco Tax Increase**

|                            | FY 2017-18 Estimate |
|----------------------------|---------------------|
| State Fiscal Year Spending | \$16.01 billion     |
| Revenue from the New Tax   | \$315.7 million     |