



## Tobacco User Fee Fact Sheet

### P2 (5) Improve Healthy Behaviors in Families and Communities: Increase Tobacco User Fee

#### POLICY

Institute an increase in the tobacco user fee. It is proposed that the current excise tax on cigarettes be raised \$.50 per pack and an increase in the tax rate of other tobacco products (chewing tobacco, snuff, dip, cigars, etc.) to 57% of the wholesale price.

#### BACKGROUND

The burden of tobacco use in Kansas is great. Each year tobacco causes over 4,000 Kansas deaths, and generates nearly \$930 million in health care costs (\$196 million within the Medicaid program alone). Policy research has shown that raising the cost of tobacco products is an effective means to decrease the rates of tobacco use. A 10% increase in the price of a pack of cigarettes is associated with a 4% drop in tobacco use (in real terms, an increase of \$.50 per pack of cigarettes may result in 20,000 of the current 400,000 adult smokers in Kansas quitting). The effect is even more pronounced among price-sensitive teens, where a similar price rise results in a 7% reduction in smoking rates.

Fifty percent of tobacco smokers begin their tobacco use before the age of 14. Not only do the habits of adults begin in childhood, but tobacco also serves as a gateway to other substance use among youth. Children and adolescents consume more than one billion packs of cigarettes a year. An increase in the excise tax on tobacco products has been one of the most effective ways to discourage youth from starting to smoke. Such a policy not only serves as an effective deterrent to tobacco use, but as an acknowledgement of the health costs that all Kansans incur as a result of usage.

Tobacco use is the leading cause of preventable deaths and health care costs. Increasing levels of imposed tobacco user fees have been demonstrated to decrease smoking rates, resulting in long-term savings in lives and costs. At the end of 2005, the average state excise tax on cigarettes was \$.922 per pack and by early 2007 that figure had risen to about \$1.03 per pack. Currently the excise tax on a pack of cigarettes in Kansas is \$.79 per pack. Tobacco use costs Kansans the equivalent of \$.86 per pack of cigarettes sold to pay for the tobacco-related illness of Medicaid recipients alone. However, Kansas currently collects only \$.79 per pack of cigarettes in health impact fees to offset this expenditure (KDHE). An increased excise tax on all tobacco products would both reduce the number of youth who take up smoking and diminish the annual \$930 million health care costs associated with tobacco consumption.

Similarly, increasing the state tax on non-cigarette tobacco products will raise new state revenues and help to reduce tobacco use levels, especially among youth, thereby reducing related harms and costs as well. Put simply, the increased revenue per package of each tobacco product sold brings in far more new revenue than are lost by the reduction in tobacco product consumption and sales prompted by the tax increase.

Over 9% of adult males in Kansas currently use chewing tobacco or snuff. In rural areas, prevalence is known to exceed 17%. Among high school males, nearly 1 in 10 reports using chewing tobacco, snuff or dip and 2 in 10 report smoking cigars. These other tobacco products are currently taxed at a rate of 10% of wholesale price. To avoid making less-expensive other tobacco products gateway to cigarette addiction or an alternative to quitting or cutting back for smokers, it is important that state tax rates on other tobacco products parallel the state's tax rate on cigarettes. For the state's current cigarette tax rate of \$.79 per pack, the comparable tax rate for other tobacco products would be approximately 35% of wholesale price.

Rm. 900-N, Landon Building, 900 SW Jackson Street, Topeka, KS 66612-1220

[www.khpa.ks.gov](http://www.khpa.ks.gov)

#### Medicaid and HealthWave:

Phone: 785-296-3981  
Fax: 785-296-4813

#### State Employee Health

Benefits and Plan Purchasing:  
Phone: 785-368-6361  
Fax: 785-368-7180

#### State Self Insurance Fund:

Phone: 785-296-2364  
Fax: 785-296-6995

## POPULATION SERVED

The entire Kansas population, including the 20% who currently smoke, would benefit in a reduction of the \$930 million health care cost associated with tobacco consumption. The 21% of high school students and 6% of middle school students who currently smoke would benefit from having a substantial barrier to smoking. The 9.3% of adult males and the nearly 20% of high school males who currently use some type of other tobacco products would benefit from a substantial barrier to using other tobacco products.

## Frequently Asked Questions

**Recommendation: Increase the tobacco user fee by \$.50 per pack for a total of \$1.29 and the smokeless tobacco excise tax by 47 percent. Both increases will adjust annually according to inflation.**

**Background:** Increasing tobacco user fees results in three benefits for the state of Kansas. The first and most important is a reduction in smoking and better health outcomes. Second is a corresponding reduction in smoking-related health care costs that all Kansans pay for. Third is a revenue stream that will allow us to pay for health reform. Kansas currently ranks 33<sup>rd</sup> among states in amount of the tobacco user fee at \$.79. In comparison to our neighboring states, only two have lower tobacco fees than Kansas. More important than these rankings are the statistics related to usage and death due to smoking. Twenty-one percent or 34,000 Kansas high school students smoke daily. Over 17% of high school males use smokeless tobacco. 17.8% 356,000 or adult Kansans smoke. The outcome of these usage statistics is that 3,900 Kansans die annually from the results of smoking. It is estimated that 54,000 Kansas children who smoke will die prematurely. In addition to the human toll is a financial one that is borne by Kansas taxpayers. Annual health care costs in Kansas that are directly caused by smoking total \$927 million. The Medicaid portion of this amount is \$196 million. These expenditures cost Kansas taxpayers \$582 per household annually. The revenue generated will be over \$61 million in the first year and will increase to \$71 million by the fifth year. This amount is sufficient to pay for the health reform recommendations.

**How does an increase in the tobacco user fee act as a deterrent to use?** Data indicates that for every 10% increase in the fee, there is a corresponding 7% reduction in youth smoking and a reduction in overall smoking of 4%. The reason for a higher reduction with kids is because they tend to be lighter smokers and the increased price makes the product less desirable. There is also a reduction in use among pregnant women and low-income smokers as a result of fee increases. This linkage between price and consumption is supported by a 2000 Surgeon General's report. In filings with the Securities and Exchange Commission, tobacco companies point out the link between increased cost and reduced use. Wall Street tobacco industry analysts also point to this correlation.

**How will the fee increase produce sufficient revenue if usage is declining?** In every state that has enacted an increase; the fee has proved to be an extremely stable source of revenue. In many cases, it is less volatile than even income tax projections, which change with economic cycles. One of the reasons for the stability of the revenue stream is that the increased price per pack offsets the reduction in total purchases. National statistics indicate an annual 2% decline in tobacco fee revenue. The KHPA proposal includes an annual inflationary adjustment to the fee to ensure revenue stability and the effectiveness of price as a deterrent. We will review revenues generated from the tax annually.

**Why is tobacco the only product targeted for an increase?** Smoking is the number one preventable cause of death. In fact, smoking causes more deaths than alcohol, illegal drugs, murder, suicide, accidents and AIDS combined. The KHPA recognizes the impact of obesity on health outcomes and addresses that issue in several reform recommendations. While the KHPA does not oppose a tax on food with little nutritional value, there are numerous causes of obesity in addition to poor food choices. The link between smoking and lung disease shows a direct, causal relationship.

**What does the term "tobacco user fee" refer to?** This is a fee that will only be paid by users of tobacco, which is approximately 20% of Kansans. These revenues will go into a designated health reform fund to pay for the costs of health reform. It is not unusual for users of products or services to bear the costs of usage. This is not unlike the toll that drivers on the turnpike pay daily to maintain transportation infrastructure. There is a considerable health care cost to all Kansans as a result of smoking. Shouldn't tobacco users pay for more of these costs through an increased fee since they are utilizing health care services as a result? A Sunflower Foundation poll shows that 64% of Kansans support raising the tobacco user fee.

**Legislative Action:** Change statute to increase fees and designate Health Reform fund for proceeds.