

2013 HOUSE FINANCE AND TAXATION

HB 1387

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1387
January 29, 2013
Job 17891

Conference Committee

Kristie Helmler

Explanation or reason for introduction of bill/resolution:

A Bill relating to an increase in the tobacco products tax rate for cigarettes.

Minutes:

Attached testimony #1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11

Chairman Belter: Opened hearing on HB 1387.

Representative Glassheim: Introduced bill. See attached testimony and handouts #1, 2, 3, 4. (ended 12:30).

Vice Chairman Headland: Should we put a dollar tax on a Big Mac? The same argument that you made as to why we should do it for cigarettes could be used to a BigMac, one exception, the public hasn't been exposed to the negative of a BigMac like tobacco.

Representative Glassheim: Some of it is a question of what the general public believes. I wouldn't have been here 20 years ago. But we have seen in the polls, elections, cities, 60 to 70 percent of the general believe that smoking is harmful. It's not telling the people they cannot smoke, it's still there choice.

Chairman Belter: Is there any further for Mr. Glassheim?

Kimberly Schneider, American Lung Association: See attached testimony from Dr. Eric Johnson, Grand Forks and from Centers for Disease Control and Prevention #5 and 6. (ended 17:45)

Deb, Cancer Center: See attached testimony #7.

Jeanne Prom, North Dakota Center for Tobacco Prevention and Control Policy: See attached testimony #8.

Representative Froseth: What is the amount of use in North Dakota today?

Jeanne Prom: The new inflow of individuals/the population is going up so the revenue has gone up also however studies have shown that per capita use is going down.

Vice Chairman Headland: Why don't we go to \$5 per pack or something higher? I assume the greater we increase the tax the more likely the person would quit.

Jeanne Prom: I would like to work with you on that bill if you like.

Chairman Belter: Any further testimony in support to 1387? Any opposition to 1387?

Bill Shalhoob, Greater North Dakota Chamber: Opposition to HB 1387. Taxes are taxes and social behavior is social behavior. See attached testimony #9. I think that raising taxes will just encourage smokers to buy from another state where it is lower, it just taking money from ND retailers.

Chairman Belter: Further testimony in opposition to 1387?

Mike Rud, North Dakota Retail Association and North Dakota Petroleum Marketers Association: See attached testimony #10. Personal responsibility and personal choice need to rule on this. (ended 29:15).

Chairman Belter: Further testimony in opposition to 1387?

Brad Borcus: See attached testimony #11.

Representative Kelsh: There are a number of other bills out that are increasing the penalty for DUI, speeding, those too are done to provoke a change in behavior. What makes those examples effective but not increasing the price of cigarettes?

Brad Borcus: I think the bigger thing there is that somebody is doing something illegal, I am all for increasing the responsibility of the underage person who purchased the product.

Chairman Belter: Closed

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1387
January 30, 2013
Job 18032

Conference Committee

Kristen Hetmyer

Explanation or reason for introduction of bill/resolution:

A Bill relating to an increase in the tobacco products tax rate for cigarettes; and to provide an effective date.

Minutes:

[Empty box for minutes]

Chairman Belter: Opens HB 1387.

Rep Headland: Do Not Pass

Rep Dockter: Second.

Yes: 12

No: 1

Absent: 1

Carried by: Rep Froseth.

FISCAL NOTE
Requested by Legislative Council
01/21/2013

Bill/Resolution No.: HB 1387

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$59,068,000			
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1387 raises the cigarette tax rate from \$.44 to \$1.00 per package of 20 cigarettes.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1387 is expected to increase revenues in the state general fund by an estimated \$59.068 million in the 2013-15 biennium.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/28/2013

Date: 1-30-13
 Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1387**

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep. Headland Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh		✓
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser	✓	
Rep. Matthew Klein	✓		Rep. Jessica Haak	✓	
Rep. David Drovdal	✓		Rep. Marie Strinden	✓	
Rep. Glen Froseth	✓				
Rep. Mark Owens	✓				
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 12 No 1

Absent 1

Floor Assignment Rep. Froseth

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1387: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (12 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). HB 1387 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

HB 1387

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Just to set the stage, let me pass on what King James I said when he was first presented with tobacco in 1604. After smoking it, he became sick and later wrote that tobacco was "loathsome to the eye, hateful to the nose, harmful to the brain and dangerous to the lungs."

The purpose of this bill is not to raise money. It is to give an extra incentive to help people quit smoking. If enacted, HB 1387 would raise North Dakota's cigarette tax by 56 cents, from 44 cents a pack to \$1.00 a pack. That would increase the cost of a pack by between 10 and 15 percent, depending on the cost of the brand today.

North Dakota is one of three states which have not raised their tobacco tax since 1999. The average for all states is \$1.48 a pack. The average for all non-tobacco-producing states is \$1.61 a pack. 45 states have cigarette taxes higher than North Dakota's. North Dakota lags well behind its bordering states. South Dakota, hardly a high tax state, levies \$1.53 per pack; Minnesota, \$1.56; and Montana, \$1.70.

Now how effective will increasing the cigarette tax be in reaching its goal: to decrease smoking rates in North Dakota?

A December 1998 study of cigarette price elasticity by Credit Suisse First Boston Corporation concluded that, conservatively, cigarette consumption would decline by four percent for every 10% increase in price.

A more recent study finds that each 10% price increase reduces youth smoking by 6.5%, adult smoking by 2% and total consumption by about 4%.

And reports from other states of actual declines in smoking following tax increases confirms that sturdy tax increases are effective in reducing smoking rates. In 2009, Arkansas raised its tax by 56 cents to \$1.15; within the first year after the tax increase, sales of cigarettes declined by 27%. In 2007, South Dakota raised its tax by \$1.00 to \$1.53 and experienced a 26% decline in sales. In the same year, Texas raised its tax a dollar to \$1.41 and cut sales of cigarettes by 21%.

I have three reasons for wanting to help people quit smoking: one is personal, one is humanitarian and the third is economic. First, the personal. I tried to quit three times but lapsed each time. I'll never forget how angry I was at myself for being controlled by a powerful force. It was only when I calculated how much I was spending a year on cigarettes and what I couldn't buy because of smoking that I was able to quit.

*
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Secondly, I hate to see people, many of whom are addicted, suffer needlessly, have years cut off their lives, their family broken by emphysema, heart disease, cancer and early death. And finally, to my economic concern. The 18.6% of North Dakotans who smoke are responsible for \$247 million a year in health care expenditures. That cost is passed on to the rest of us in the form of higher insurance premiums, higher Medicaid costs, and higher hospital uncollectables. Reduction in the number of smokers means a reduction in health care premiums for the rest of us.

A December 30, 2010 Fargo Forum editorial summed up the case for raising taxes on cigarettes: "In concert with public smoking bans, cessation programs, and anti-smoking campaigns, higher tobacco taxes are an important tool to persuade smokers to snuff out the habit--or better yet, convince teens never to start.

"Research shows higher taxes pay public dividends. A 10% increase in the real price of cigarettes will reduce adult smoking by 2% and cut teen smoking by roughly 7%. That would make a difference in North Dakota, where tobacco use rates are high: 22% of students in grade nine smoke. That's alarmingly high and greater than the percentage of adults, which is 18 %.

"Make no mistake: taxpayers pay for smokers. Medicaid costs for smoking-related illnesses are estimated at \$47 million a year. Factor in lost productivity--\$192 million a year--and all direct medical expenditures--\$250 million a year-- and the cost of cigarettes adds up to roughly \$700 a year per person."

I said at the beginning that the purpose of this increase in cigarette taxes was not to raise revenues. But it will bring in somewhere around \$32 million next biennium. As the bill stands now, that money would simply go into the General Fund. But I could see the money being targeted; for instance, it could help pay for Medicaid costs related to smoking; or it could provide \$4,000 college scholarships to 4,000 needy students, or to high achieving students in STEM fields. Or it could be split among North Dakota hospitals to help pay for uncompensated care losses, especially in the west. Should the committee have any interest in the bill, I would certainly be open to an amendment targeting the increased funds to any purpose committee members thought appropriate.

I hope the committee will add one more tool to help addicted people kick this habit and compensate the state for the large medical costs created by smoking.



#2
1-29-13

NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A \$1.00 CIGARETTE TAX INCREASE IN NORTH DAKOTA

Current state cigarette tax: 44 cents per pack (46th among all states and DC)
Smoking-caused health care costs in North Dakota: \$10.48 per pack

Annual health care expenditures in North Dakota directly caused by tobacco use: \$247 million
Smoking-caused state Medicaid program spending each year: \$47 million

New Annual Revenue from Increasing the Cigarette Tax Rate by \$1.00 Per Pack: \$32.35 million

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits from the Cigarette Tax Rate Increase	
Percent decrease in youth smoking:	15.4%
Kids in North Dakota kept from becoming addicted adult smokers:	6,300
Current adult smokers in the state who would quit:	5,200
Smoking-affected births avoided over next five years:	900
North Dakota residents saved from premature smoking-caused death:	3,400
5-Year health care cost savings from fewer smoking-caused lung cancer cases:	\$800,000
5-Year health care cost savings from fewer smoking-affected pregnancies & births:	\$2.13 million
5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:	\$1.49 million
5-Year Medicaid program savings for the state:	\$240,000
Long-term health care cost savings in the state from adult & youth smoking declines:	\$222.91 million

12.21.12 TFK / January 8, 2013

- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state more revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, or smokeless tobacco products. It is important to consider all aspects of state tax policy related to OTPs (including the new generation of smokeless tobacco products), including tax definitions, minimum pack sizes, tax rates, and whether the rates are based on price or weight, in order to ensure that they are adequately taxed to protect public health. To parallel the new \$1.44 per pack cigarette tax, the state's new OTP tax rate should be at least 45% of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

More information available at http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/ and <http://www.acscan.org/tobaccopolicy>.

For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>.

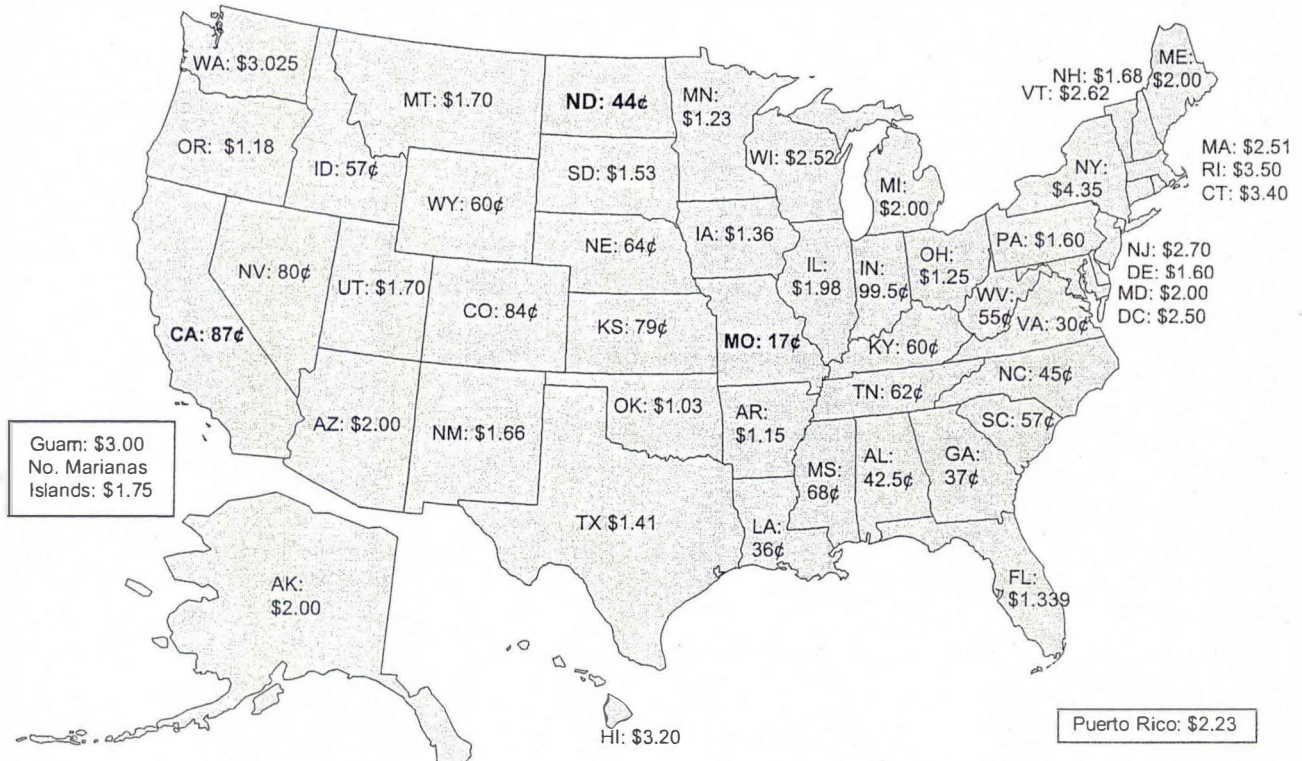


MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: \$1.48 per Pack

Average Cigarette Tax in Major Tobacco States: 48.5 cents per Pack

Average Cigarette Tax in Non-Tobacco States: \$1.61 per Pack



Map shows state cigarette tax rates in effect now. The three states that have not increased their cigarette tax rate since 1999 or earlier are marked in bold. Currently, 30 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of \$1.00 per pack or higher; 14 states, DC, Puerto Rico, and Guam have cigarette tax rates of \$2.00 per pack or higher; five states and Guam have cigarette tax rates of \$3.00 per pack or higher; and one state (NY) has a cigarette tax rate more than \$4.00 per pack. The state averages listed above do not include Puerto Rico (with a population larger than those in 20 states) or any of the U.S. territories (such as Guam). The major tobacco states with extensive tobacco farming and, often, cigarette manufacturing, are NC, KY, VA, SC, TN, & GA. Federal cigarette tax is \$1.01 per pack. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago (68¢), Cook County, IL (\$3.00), New York City (\$1.50), and Anchorage, AK (\$2.206). The U.S. Centers for Disease Control & Prevention estimates that smoking-caused health costs and productivity losses total \$10.47 per pack sold.

Campaign for Tobacco-Free Kids, December 5, 2012 / Ann Boonn

For more information on state cigarette taxes and the benefits from increasing them, see [http://www.tobaccofreekids.org/facts issues/fact sheets/policies/tax/us state local/](http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/).

* Previous versions of this factsheet listed cigarette tax rates for Washington, DC and Minnesota that included the per-pack cigarette sales tax rates that are collected at the wholesale level with the excise tax. Now the listed tax rates are purely the excise tax portion, exclusive of the sales tax. This is not a change in the actual excise tax rates, just the way that the rates are listed.

Cigarette Tax Collections

	<u>Per Capita</u>	<u>Tobacco</u>
2012	\$ 21.5	5.1
2011	21.3	4.4
2010	20.1	3.7
2009	20.1	3.3
2008	20.9	3.0
2007	21.0	2.8
2006	21.2	2.6
2005	19.5	



From: Dr. Eric L. Johnson, M.D., Grand Forks, ND


President
Tobacco Free North Dakota

Associate Professor
Department of Family and Community Medicine
UNDSMHS

Director Interprofessional Education
UNDSMHS

Medical Director
Physician Assistant Program
UNDSMHS


Assistant Medical Director
Altru Diabetes Center
FMC-Altru Health System



Assistant Medical Director
Valley Memorial Homes

Although I'm unable to appear in person, I'd like to offer information regarding tobacco, specifically cigarette, taxation and its specific relationship to reducing youth smoking. I have actively been involved in tobacco related issues since beginning my association with NDQuits, formerly known as the North Dakota Tobacco Quitline.

We are fortunate to have up to date quality information to support this effort in reducing smoking among youth in North Dakota. Here is the current state of tobacco use among youth in our state:



15
2

Cigarette Use:

- 44% ever tried cigarette smoking. (1)
- 19% smoked cigarettes on at least 1 day during the 30 days before the survey.
- 8% smoked cigarettes on 20 or more days during the 30 days before the survey.
- 47% did not try to quit smoking cigarettes. (2)

Other Tobacco Use

- 14% used chewing tobacco, snuff, or dip on at least 1 day during the 30 days before the survey.
- 13% smoked cigars, cigarillos, or little cigars on at least 1 day during the 30 days before the survey.

Any Tobacco Use

- 28% smoked cigarettes; smoked cigars, cigarillos or little cigars; or used chewing tobacco, snuff, or dip on at least 1 day during the 30 days before the survey.

The current data support 2 ways to reduce youth smoking. One is instituting smoke free laws. North Dakota voters strongly supported this in the election in November 2012, passing North Dakota's new smoke-free law by a margin of 2 to 1, with every county and legislative district voting in favor, so it's pretty clear this is what the people of North Dakota wanted. Although these laws are primarily designed to reduce the infliction of injury on others from secondhand smoke, smoke-free laws do tend to reduce youth smoking.

P. W. CF

The other way to reduce youth smoking is to increase taxes per pack of cigarettes.

In a newly published study in the prestigious American Journal of Public Health, doubling the price of cigarettes decreased youth smoking by 13%, which was the most effective way to cut smoking in this population. It's also estimated that in total in the states that increased tobacco taxes during the study period resulted in 220,000 fewer youth smokers.

Other established previously published studies showed other benefits from increasing tobacco taxes:

- Every 10 percent increase in the real price of cigarettes reduces overall cigarette consumption by approximately three to five percent, reduces the number of young-adult smokers by 3.5 percent, and reduces the number of kids who smoke by six or seven percent.
- Cigarette price and tax increases work even more effectively to reduce smoking among males, Blacks, Hispanics, and lower-income smokers.
- A cigarette tax increase that raises prices by ten percent will reduce smoking among pregnant women by seven percent, saving many newborns from suffering from smoking-affected births and related health consequences.
- Many states note increase in access to quit services, such as what North Dakota has with NDQuits, when tobacco taxes increase. Wisconsin and Iowa have notable data in this area- for example; Wisconsin went from about 9,000 calls a month to 20,000 in a month after a new cigarette tax. In Washington, the number of smokers decreased by 100,000 after their tobacco tax increase.

P. 4 CF

Now, I think many would say that North Dakota doesn't need another taxation revenue stream, and we are fortunate in North Dakota in that regard. As well, the people of North Dakota have historically supported tobacco prevention funding- for example the well-known so called "Measure 3" of 2008. Currently, North Dakota ranks very low in tobacco tax- we are ranked 46th, with a state tax of 44 cents per pack. The highest tobacco tax state is New York at \$4.35 per pack. The overall average is \$1.28. Some may say that tobacco taxes pay for themselves with health care, but it's estimated that each pack of cigarettes generates about \$10 in health care costs.

Tobacco use itself remains a very expensive problem for North Dakota, with an estimated \$247 million spent annually on the treatment of tobacco related diseases. Cutting down youth smoking, as well as smoking in other groups as noted, has the potential to reduce these costs in the future.

Thank you for your time today, and I would be happy to answer any other questions regarding this or other tobacco related diseases or prevention. My contact information can be provided upon request. References are provided as well.

<http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf>

<http://www.ndhealth.gov/tobacco/Facts.htm>

<http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>

http://www.cdc.gov/healthyyouth/yrbs/pdf/tobacco/nd_tobacco_combo.pdf



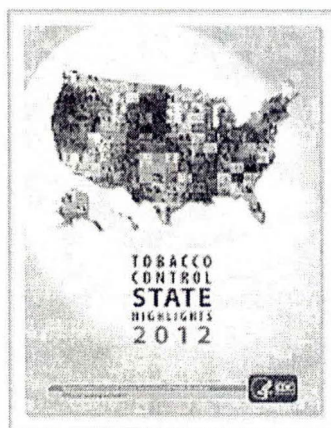
Centers for Disease Control and Prevention
CDC 24/7: Saving Lives. Protecting People.™

Tobacco Control State Highlights 2012

Abstract

- **Highlights 2012 Abstract**
- [Highlights 2012 \(by section\)](/tobacco/data_statistics/state_data/state_highlights/2012/sections/index.htm)
(/tobacco/data_statistics/state_data/state_highlights/2012/sections/index.htm)
- [Highlights 2012 Buttons](/tobacco/buttons/state_highlights/index.htm) (/tobacco/buttons/state_highlights/index.htm)

- [Highlights 2012 Download](/tobacco/data_statistics/state_data/state_highlights/2012/zip_files/highlights.zip)
(/tobacco/data_statistics/state_data/state_highlights/2012/zip_files/highlights.zip) (Zip-16.3 MB)
- [Highlights 2012 Factsheet](/tobacco/data_statistics/state_data/state_highlights/2012/pdfs/factsheet.pdf)
(/tobacco/data_statistics/state_data/state_highlights/2012/pdfs/factsheet.pdf) (PDF-50 KB)
- [STATE System Interactive Maps](/tobacco/data_statistics/state_data/state_highlights/2012/statesystem/index.htm)
(/tobacco/data_statistics/state_data/state_highlights/2012/statesystem/index.htm)



Tobacco Control State Highlights 2012

Tobacco use is the single most preventable cause of death in the United States. Each year in the United States, cigarette smoking and exposure to secondhand smoke causes 443,000—or 1 in 5 deaths. Economic losses are also staggering. Smoking-caused diseases result in \$96 billion in health care costs annually.

#16

Some states have significantly improved the health of their citizens by reducing smoking rates, thereby decreasing smoking-related diseases, deaths, and health care costs. Even in economically challenging times, states can make a significant difference in public health by employing high-impact, cost-effective tobacco control and prevention strategies as laid out in the World Health Organization's MPOWER strategic package of interventions proven to reduce tobacco use prevalence including:

- **M**onitor tobacco use and prevention policies
- **P**rotect people from tobacco smoke
- **O**ffer help to quit tobacco use
- **W**arn people about the dangers of tobacco
- **E**nforce bans on tobacco advertising, promotion, and sponsorship
- **R**aise state cigarette taxes on tobacco

Tobacco Control State Highlights 2012 guides states in developing and implementing high-impact strategies and assessing their performance. This report also provides state-specific data intended to—

1. Highlight how some states are making great strides in reducing smoking rates using evidence-based strategies while also showing that more work needs to be done in other states
2. Enable readers to see how their own states perform
3. Help policymakers with decision making

[Post and share 2012 Tobacco Control State Highlights Buttons \(/tobacco/buttons/state_highlights/index.htm\)](/tobacco/buttons/state_highlights/index.htm)

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Related Archived Link

- [Tobacco Control State Highlights 2010 \(/tobacco/data_statistics/state_data/state_highlights/2010/index.htm\)](/tobacco/data_statistics/state_data/state_highlights/2010/index.htm)

Persons with disabilities who experience problems accessing the 2012 Tobacco Control State Highlights should contact tobaccoinfo@cdc.gov (<mailto:tobaccoinfo@cdc.gov>), or call 1-800-CDC-INFO (1-800-232-4636).

Page last reviewed: January 24, 2013

Page last updated: January 24, 2013

Content source: [Office on Smoking and Health, National Center for Chronic Disease Prevention and Health Promotion](#)

Centers for Disease Control and Prevention 1600 Clifton Rd. Atlanta, GA 30333, USA

800-CDC-INFO (800-232-4636) TTY: (888) 232-6348 - [Contact CDC-INFO](#)

#6
P.3

NORTH DAKOTA

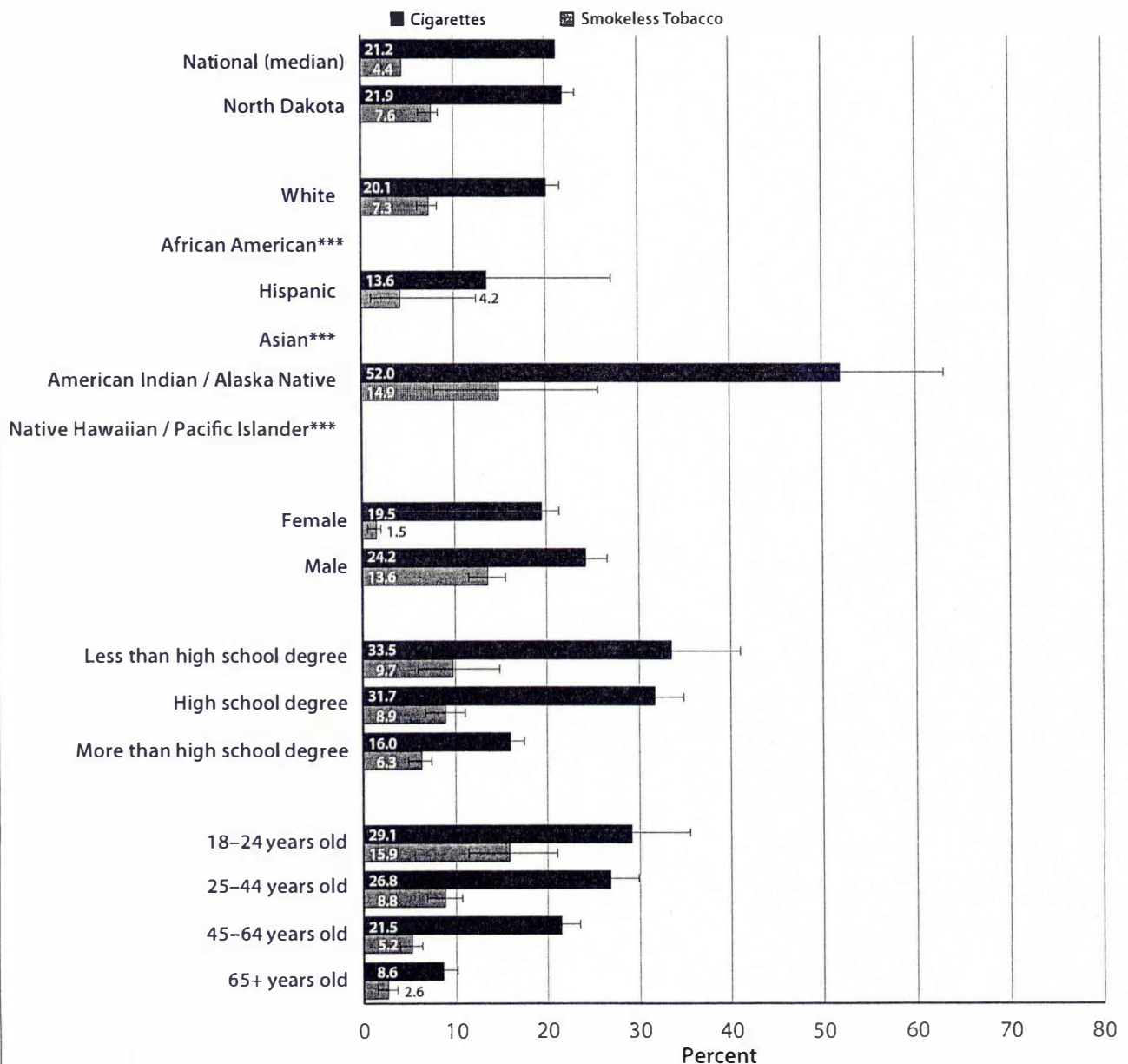
Monitor

Adult Current Cigarette/Smokeless Tobacco Use

In North Dakota, the percentage of adults (ages 18+) who currently smoke cigarettes was 21.9% in 2011. Across all states and D.C., the prevalence of cigarette smoking among adults ranged from 11.8% to 29.0%. North Dakota ranked 30th among the states.

The percentage of adults who currently use smokeless tobacco was 7.6% in 2011. Across all states and D.C., the prevalence ranged from 1.4% to 9.8%. North Dakota ranked 49th among the states.

Current Cigarette and Smokeless Tobacco Use among Adults by Demographic Characteristics



*** Sample size <50

Source: Behavioral Risk Factor Surveillance System, 2011

NORTH DAKOTA

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P. 4

Youth Current Cigarette/Smokeless Tobacco/Cigar Use

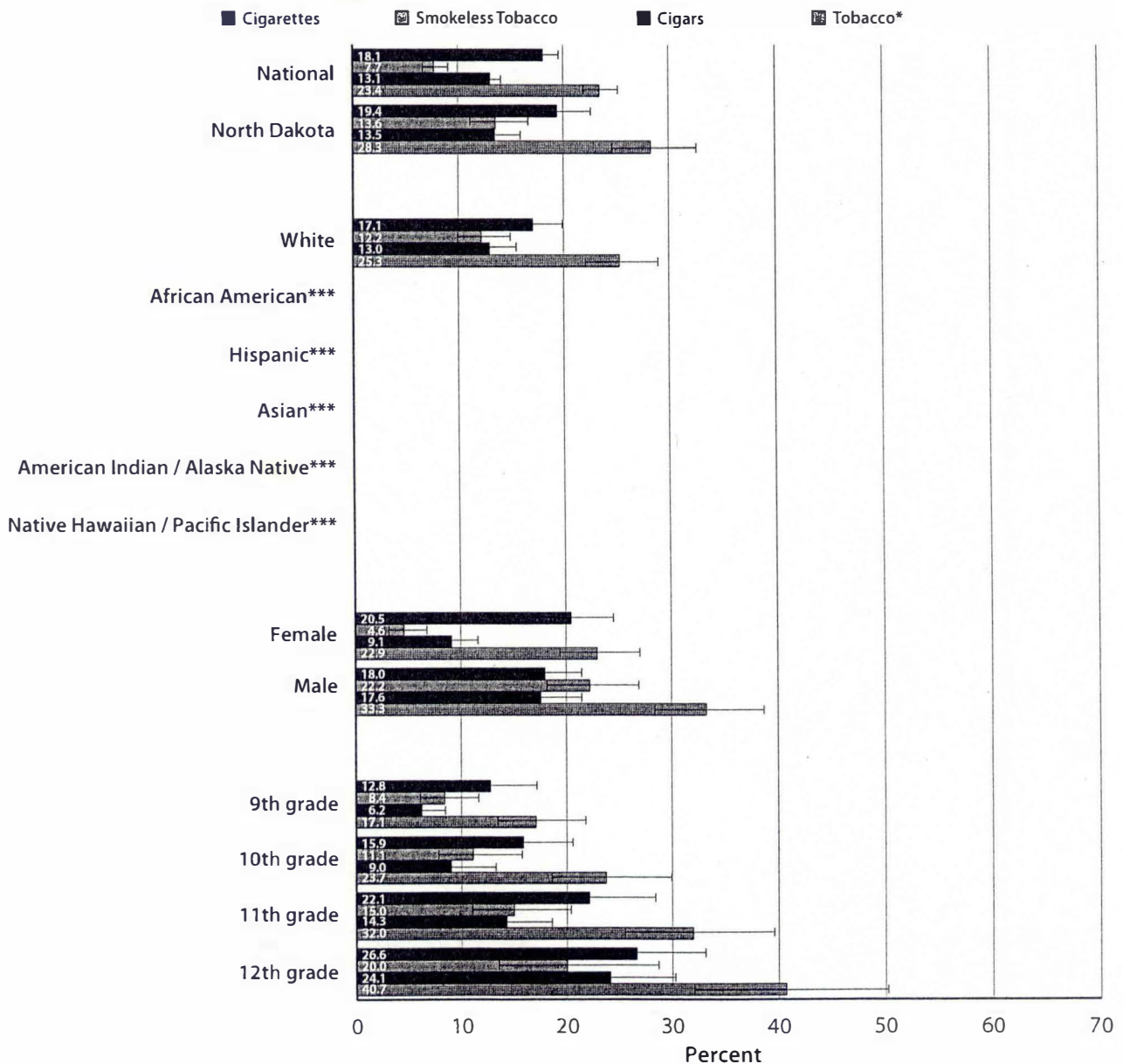
In North Dakota, the percentage of youth in grades 9-12 who currently smoke cigarettes was 19.4% in 2011. The range across 44 states was 5.9% to 24.1%. North Dakota ranked 34th among 44 states.

The percentage of youth who currently smoke cigars was 13.5% in 2011. The range across 37 states was 5.0% to 18.3%. North Dakota ranked 17th among 37 states.

The percentage of youth who currently use smokeless tobacco was 13.6% in 2011. The range across 40 states was 3.5% to 16.9%. North Dakota ranked 36th among 40 states.

The percentage of youth who currently use tobacco (i.e., cigarettes, smokeless tobacco, and/or cigars) was 28.3% in 2011. The range across 36 states was 7.8% to 31.9%. North Dakota ranked 30th among 36 states.

Tobacco Use among High School Students by Demographic Characteristics



* Cigarettes, smokeless tobacco, and/or cigars
 *** Sample size <100

Source: Youth Risk Behavior Survey, 2011

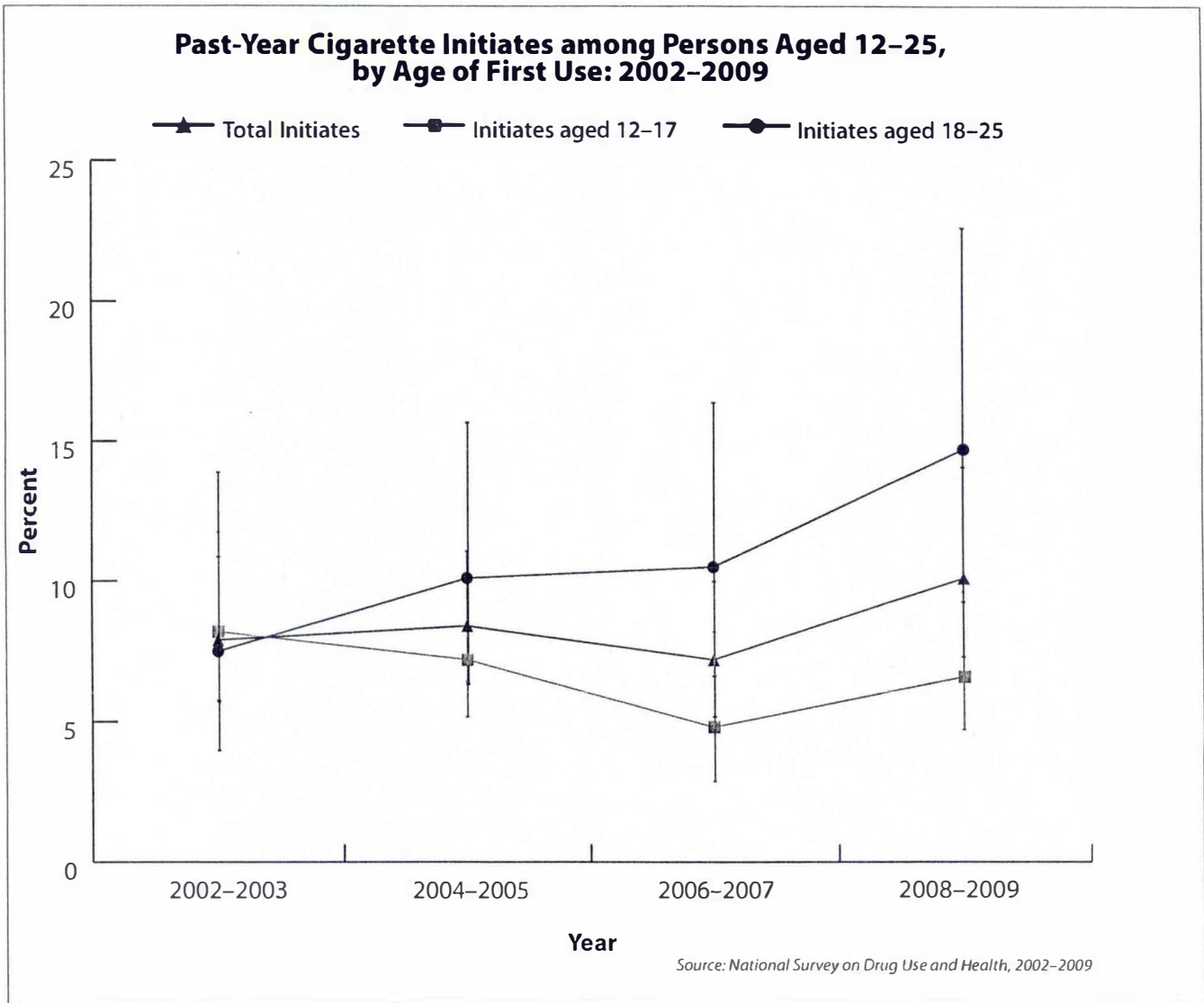
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NORTH DAKOTA

Past-Year Cigarette Initiation

In 2008-2009, of all North Dakota youth ages 12-17 who had never smoked, 6.6% smoked a cigarette for the first time in the past year. This ranked 37th in the nation, with a range of 3.3%–9.2% among the states.

Of all young adults ages 18-25 who had never smoked, 14.7% smoked a cigarette for the first time in 2008-2009. This ranked 51st in the nation, with a range of 4.2%–14.7% among the states.



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P. 6

NORTH DAKOTA

Protect

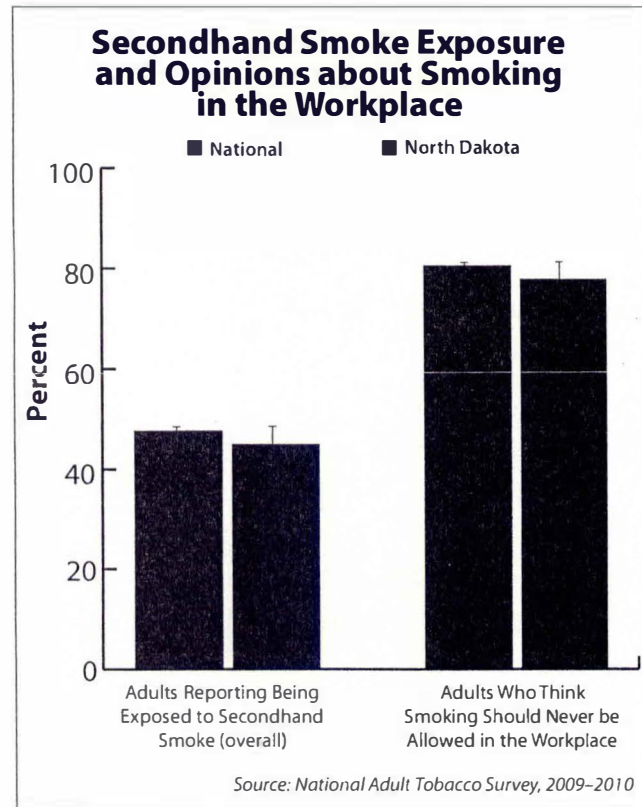
Adult Exposure to Secondhand Smoke

Among all adults, the percentage who reported being exposed to secondhand smoke within the past 7 days was lower in North Dakota than in the nation overall. In 2009-2010, overall exposure to secondhand smoke in North Dakota was 45.0%, ranking 18th among the states.

Adults were exposed to secondhand smoke in various locations. The table shows the percentage of North Dakota adults who reported any exposure, as well as exposure in their home, in a vehicle, or in indoor or outdoor areas at work or public places in the past 7 days.

Overall	Workplaces	Homes	Vehicles	Public Places
45.0%	18.0%	8.1%	15.0%	32.4%

Source: National Adult Tobacco Survey, 2009-2010

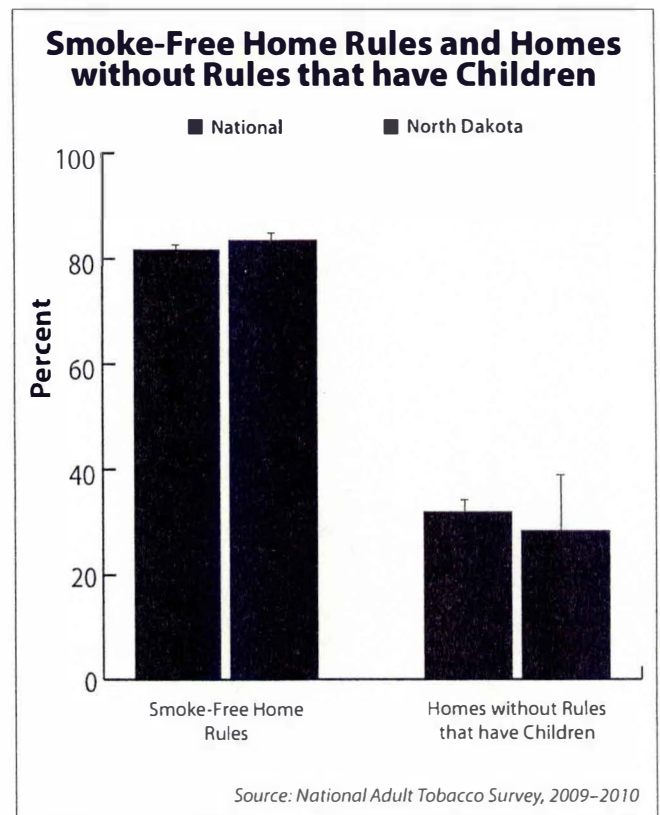


Opinions about Smoking in the Workplace

In 2009-2010, 77.8% of adults in North Dakota thought that smoking should never be allowed in indoor workplaces, ranking 30th among the states.

Smoke-Free Home Rules

In 2009-2010, 83.6% of adults in North Dakota reported that their homes had smoke-free home rules, ranking 18th among the states. The percentage of homes without smoke-free home rules with children living in them was 28.4%, ranking 11th among the states.



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NORTH DAKOTA

State Smoke-Free Policy

As of June 30, 2012, North Dakota had a smoke-free law that prohibits smoking in indoor areas of workplaces, but not restaurants or bars. The state allowed communities to enact local smoke-free laws.

Note: See Appendix B for updated legislation that takes effect after June 30, 2012.

Smoke-Free Legislation			
Workplaces	Restaurants	Bars	Local Laws Permitted
✓ Yes	☒ No*	☒ No	✓ Yes

* Designated Smoking Areas
 † Ventilated Smoking Areas
 ‡ No Restrictions
 ¶ Allowed smoking in venues that prohibit minors

* Allowed for non-hospitality workplaces.
 † Prohibited for non-hospitality workplaces.

Note: Not all footnotes may be used. Source: STATE System, June 2012

Offer

Adults Who Made a Quit Attempt in the Last Year

During 2009-2010, 55.2% of North Dakota adult smokers made a quit attempt in the past year, ranking 22nd among the states.

Percentage of Smokers Attempting to Quit



Quitline Utilization

In 2010, the North Dakota quitline received 7,478 calls, and 1,342 tobacco users (an estimated 1.2% of all tobacco users in the state) received telephone counseling, cessation medications, or both from the state quitline.

Medicaid Coverage for Counseling and Medications

In 2010, North Dakota's Medicaid program provided incomplete coverage through Medicaid for tobacco-dependence treatment. North Dakota provided full coverage for some nicotine replacement therapies, full coverage for varenicline, full coverage for bupropion, and no coverage for counseling (individual or group).

Medicaid Coverage for Counseling and Medications			
Comprehensive Coverage			
☒ No			
NRTs (One or More)	Varenicline	Bupropion	Counseling (Individual and/or Group)
✓ Yes	✓ Yes	✓ Yes	☒ No

* Pregnant women only
 † Fee-for-service only
 ‡ Available only via the quitline

Note: Not all footnotes may be used. Source: Halpin, et al, 2011

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NORTH DAKOTA

Warn

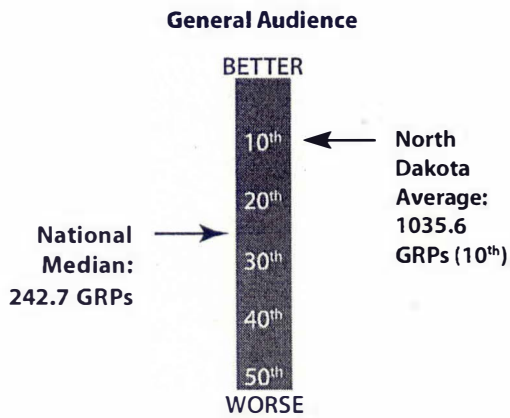
Tobacco Counter-Marketing Media Intensity

CDC *Best Practices* recommendations translate into an average quarterly exposure of 1,200 general audience gross rating points (GRPs) and 800 youth target rating points (TRPs) in effective anti-tobacco media campaigns. North Dakota had an average of 1035.6 general audience GRPs and 143.6 youth TRPs per quarter in television advertising supporting tobacco control messages in 2010.

Knowledge of the Dangers of Tobacco

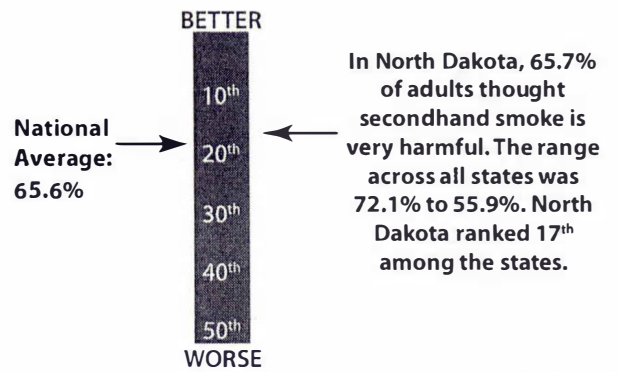
In North Dakota, 65.7% of adults thought that breathing smoke from other people's cigarettes or other tobacco products is very harmful to one's health in 2009-2010. Additionally, 83.2% thought that cigarette smoking is very addictive.

Anti-Tobacco Media Campaign Intensity, GRPs Per Quarter



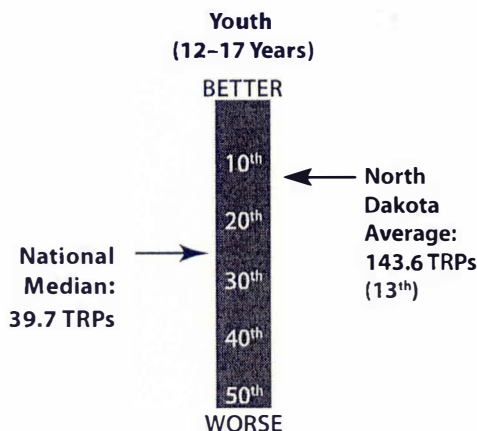
Source: CDC/OSH

Secondhand Smoke



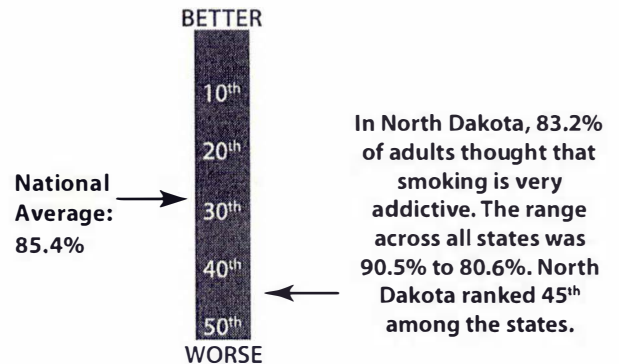
Source: National Adult Tobacco Survey, 2009-2010

Anti-Tobacco Media Campaign Intensity, TRPs Per Quarter



Source: CDC/OSH

Addictiveness of Smoking






Source: National Adult Tobacco Survey, 2009-2010

NORTH DAKOTA

Enforce

State Allows Local Advertising and Promotion Laws





As of June 30, 2012, North Dakota allowed local regulation of tobacco industry promotions, tobacco product sampling, and display of tobacco products in commercial establishments.

State Allows Local Laws		
Promotion	Sampling	Display
 Yes	 Yes	 Yes

Source: STATE System, June 2012

Over-the-Counter Retail Licensure

As of June 30, 2012, North Dakota required all establishments selling cigarettes and smokeless tobacco products over-the-counter to be licensed. Nationally, 37 states required over-the-counter licensure for cigarettes, 29 of which also have a requirement for smokeless tobacco, with various renewal frequencies, fees and penalties for violations.

Over-the-Counter Licensure and Penalties				
Over-the-Counter License Required	Minimum License Fee	Renewal Required (& Frequency)	Penalty to Business	Licensure Includes Smokeless Tobacco
 Yes	\$15.00	 Yes^a	 Yes^b	 Yes

^a Annually
^b Class A Misdemeanor: Fine or Imprisonment, or both

Note: Not all footnotes may be used.
Source: STATE System, June 2012

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NORTH DAKOTA

Raise

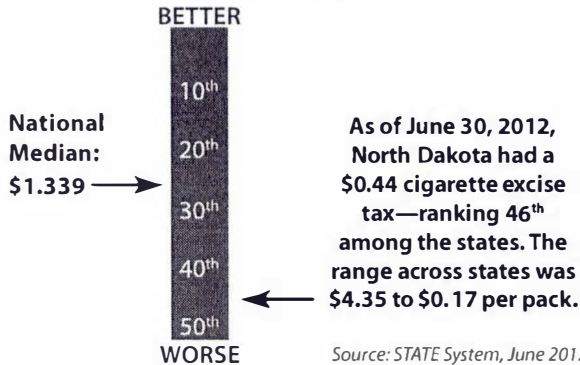
Amount of Tobacco Product Excise Tax

As of June 30, 2012, the excise tax on cigarettes in North Dakota was \$0.44 per pack, ranking 46th among the states. The tax on cigars was 28% of the wholesale purchase price per cigar, and for little cigars the tax was 28% of the wholesale purchase price per pack of 20. The tax on chewing tobacco was \$0.16 per ounce with snuff taxed at \$0.60 per ounce.

Price Paid for Last Cigarettes Purchased

In North Dakota, 65.6% of adult smokers bought their last cigarettes by the pack, and 34.4% bought them by the carton in 2009-2010. The average price that North Dakota smokers reported paying for their last pack of cigarettes was \$4.33 in 2009-2010; the range among states was \$7.98 to \$4.04. The average price that North Dakota smokers reported paying for their last carton of cigarettes was \$35.61 in 2009-2010; the range among 45 states with valid data was \$64.45 to \$30.46.

Amount of Cigarette Excise Tax





NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A \$1.00 CIGARETTE TAX INCREASE IN NORTH DAKOTA

Current state cigarette tax: 44 cents per pack (46th among all states and DC)
Smoking-caused health care costs in North Dakota: \$10.48 per pack

Annual health care expenditures in North Dakota directly caused by tobacco use: \$247 million
Smoking-caused state Medicaid program spending each year: \$47 million

New Annual Revenue from Increasing the Cigarette Tax Rate by \$1.00 Per Pack: \$32.35 million

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits from the Cigarette Tax Rate Increase

<i>Percent decrease in youth smoking:</i>	15.4%
<i>Kids in North Dakota kept from becoming addicted adult smokers:</i>	6,300
<i>Current adult smokers in the state who would quit:</i>	5,200
<i>Smoking-affected births avoided over next five years:</i>	900
<i>North Dakota residents saved from premature smoking-caused death:</i>	3,400
<i>5-Year health care cost savings from fewer smoking-caused lung cancer cases:</i>	\$800,000
<i>5-Year health care cost savings from fewer smoking-affected pregnancies & births:</i>	\$2.13 million
<i>5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:</i>	\$1.49 million
<i>5-Year Medicaid program savings for the state:</i>	\$240,000
<i>Long-term health care cost savings in the state from adult & youth smoking declines:</i>	\$222.91 million

12.21.12 TFK / January 8, 2013

- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state more revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, or smokeless tobacco products. It is important to consider all aspects of state tax policy related to OTPs (including the new generation of smokeless tobacco products), including tax definitions, minimum pack sizes, tax rates, and whether the rates are based on price or weight, in order to ensure that they are adequately taxed to protect public health. To parallel the new \$1.44 per pack cigarette tax, the state's new OTP tax rate should be at least 45% of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

More information available at http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/ and <http://www.acscan.org/tobaccopolicy>.

For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>.

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Explanations & Notes

Health care costs listed at the top of the page are from the U.S. Centers for Disease Control and Prevention.

Projections are based on research findings that each 10% cigarette price increase reduces youth smoking by 6.5%, adult rates by 2%, and total consumption by about 4% (adjusted down to account for tax evasion effects). Revenues still increase because the higher tax rate per pack will bring in more new revenue than is lost from the tax-related drop in total pack sales.

The projections incorporate the effect of both ongoing background smoking declines and the continued impact of the 61.66-cent federal cigarette tax increase (effective April 1, 2009) on prices, smoking levels, and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, <http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf>.

Kids stopped from smoking and dying are from all youth ages 17 and under alive today. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2013 dollars.

Projections for cigarette tax increases much higher than \$1.00 per pack are limited, especially for states with relatively low current tax rates, because of the lack of research on the effects of larger cigarette tax increase amounts on consumption and prevalence. Projections for cigarette tax increases much lower than \$1.00 per pack are also limited because small tax increases are unlikely to produce significant public health benefits.

Ongoing reductions in state smoking rates will, over time, gradually erode state cigarette tax revenues (in the absence of any new rate increases). But those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues (which can drop sharply during recessions). In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused costs. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <http://tobaccofreekids.org/research/factsheets/pdf/0303.pdf>.

For other ways states can increase revenues (and promote public health) other than just raising its cigarette tax, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf>.

For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>.

Needed State Efforts to Protect State Tobacco Tax Revenues

Having each of the following measures in place will maintain and increase state tobacco tax revenues by closing loopholes, blocking contraband trafficking, and preventing tax evasion.

State tax rate on RYO cigarettes equals the state tax rate on regular cigarettes	Yes
State tax rates on other tobacco products match the state cigarette tax rate	Yes
State definitions of "cigarette" block cigarettes from wrongfully qualifying as "cigars"	No
State definitions of "tobacco product" reach all tobacco products	No
Minimum taxes on all tobacco products to block tax evasion and promote tax equity	No
"High-tech" tax stamps to stop counterfeiting and other smuggling and tax evasion	No
Retailers lose license if convicted of contraband trafficking	Yes
Street sales and mobile sales of cigarettes and other tobacco products prohibited	No
Non-Tobacco nicotine products without FDA approval banned	No



North Dakota Tobacco Prevention and Control Executive Committee

Center for Tobacco Prevention and Control Policy
4023 State Street, Suite 65 • Bismarck, ND 58503-0638
Phone 701.328.5130 • Fax 701.328.5135 • Toll Free 1.877.277.5090

Testimony House Bill 1387

10:00 a.m., January 29, 2013, House Finance and Taxation Committee

Good morning, Chairman Belter and members of the House Finance and Tax Committee. I am Jeanne Prom, executive director of the N.D. Center for Tobacco Prevention and Control Policy.

Increasing the tobacco tax significantly will lead to a decrease in tobacco use in our state. Tobacco use is the leading cause of preventable disease and death, and the toll of tobacco use in North Dakota is high:

- Annual health care costs in North Dakota directly caused by smoking: \$247 million
- Portion paid by the state Medicaid program annually: \$47 million
- Number of North Dakota adults who will die from smoking this year: 800
- High school students who smoke: 7,400 (19.4%)
- Male high school students who use smokeless or spit tobacco: 22.2%
- Kids under 18 who become new daily smokers each year: 600

The North Dakota Tobacco Prevention and Control Advisory Committee, in its plan, *Saving Lives – Saving Money, North Dakota's Comprehensive State Plan to Prevent and Control Tobacco Use*, calls for a significant increase in all tobacco taxes – to \$2/pack – to keep kids from starting and prompt users to quit. As you can see on the attachments, North Dakota's tobacco tax is one of the lowest in the country, at 44 cents/pack. This tax hasn't been increased since 1993. The low tax results in inexpensive tobacco that is affordable to youth and populations with limited incomes and high smoking rates. High tobacco taxes work most effectively to cut use among lower-income smokers and young male smokeless tobacco users – two groups that suffer disproportionately from the harms of tobacco use.

Tobacco use and its health hazards are completely preventable. Raising the tobacco tax to \$2/pack with a comparable tax amount on other tobacco products can be expected to:

- Decrease youth smoking by: 24%
- Reduce the number of kids from becoming addicted adult smokers by: 9,900
- Reduce the number of adults in the state who smoke by: 8,200
- Save the state millions of dollars in smoking-related health care costs over just 5 years.

Please consider HB 1387 with amendments to increase the tobacco tax to \$2/pack with a comparable tax increase on all other tobacco products.

Thank you for your time and consideration. I am happy to respond to any questions.

The Toll of Tobacco in North Dakota

Updated Dec. 5, 2012

Handwritten initials

The Toll of Tobacco in North Dakota

High school students who smoke	19.4% (7,400)
Male high school students who use smokeless or spit tobacco	22.2%
Kids (under 18) who become new daily smokers each year	600
Kids exposed to secondhand smoke at home	42,000
Packs of cigarettes bought or smoked by kids each year	1.9 million
Adults in North Dakota who smoke*	21.9% (116,600)

*Due to changes in CDC's methodology, the 2011 adult smoking rate cannot be compared to adult smoking data from previous years.

U.S. National Data (2011)

High school smoking rate:	18.1%
Male high school students who use smokeless tobacco:	12.8%
Adult smoking rate	19.0%

Deaths in North Dakota from Smoking

Adults who die each year from their own smoking	800
Kids now under 18 and alive in North Dakota who will ultimately die prematurely from smoking	11,000

Smoking kills more people than alcohol, AIDS, car crashes, illegal drugs, murders, and suicides combined — and thousands more die from other tobacco-related causes — such as fires caused by smoking (more than 1,000 deaths/year nationwide) and smokeless tobacco use.

Smoking-Caused Monetary Costs in North Dakota

Annual health care costs in North Dakota directly caused by smoking	\$247 million
Portion covered by the state Medicaid program	\$47 million
Residents' state & federal tax burden from smoking-caused government expenditures	\$574 per household
Smoking-caused productivity losses in North Dakota	\$192 million

Amounts do not include health costs caused by exposure to secondhand smoke, smoking-caused fires, smokeless tobacco use, or cigar and pipe smoking. Tobacco use also imposes additional costs such as workplace productivity losses and damage to property.

Tobacco Industry Influence in North Dakota

Annual tobacco industry marketing expenditures nationwide	\$8.5 billion
Estimated portion spent for North Dakota marketing each year	\$25.7 million

Published research studies have found that kids are twice as sensitive to tobacco advertising than adults and are more likely to be influenced to smoke by cigarette marketing than by peer pressure. One-third of underage experimentation with smoking is attributable to tobacco company advertising.

View sources of information.

More detailed fact sheets on tobacco's toll in each state are available by emailing factsheets@tobaccofreekids.org

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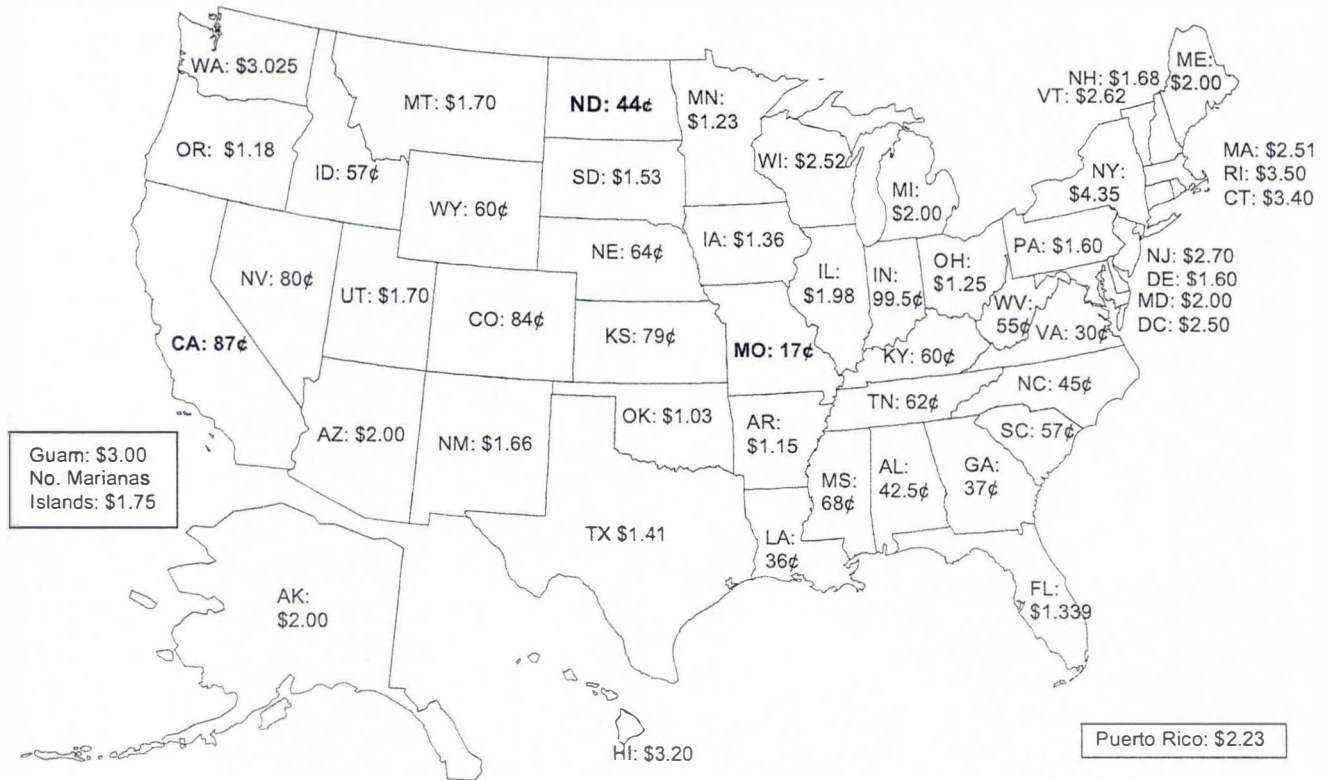


MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: \$1.48 per Pack

Average Cigarette Tax in Major Tobacco States: 48.5 cents per Pack

Average Cigarette Tax in Non-Tobacco States: \$1.61 per Pack



Map shows state cigarette tax rates in effect now. The three states that have not increased their cigarette tax rate since 1999 or earlier are marked in bold. Currently, 30 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of \$1.00 per pack or higher; 14 states, DC, Puerto Rico, and Guam have cigarette tax rates of \$2.00 per pack or higher; five states and Guam have cigarette tax rates of \$3.00 per pack or higher; and one state (NY) has a cigarette tax rate more than \$4.00 per pack. The state averages listed above do not include Puerto Rico (with a population larger than those in 20 states) or any of the U.S. territories (such as Guam). The major tobacco states with extensive tobacco farming and, often, cigarette manufacturing, are NC, KY, VA, SC, TN, & GA. Federal cigarette tax is \$1.01 per pack. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago (68¢), Cook County, IL (\$3.00), New York City (\$1.50), and Anchorage, AK (\$2.206). The U.S. Centers for Disease Control & Prevention estimates that smoking-caused health costs and productivity losses total \$10.47 per pack sold.

Campaign for Tobacco-Free Kids, December 5, 2012 / Ann Boonn

For more information on state cigarette taxes and the benefits from increasing them, see http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/.

* Previous versions of this factsheet listed cigarette tax rates for Washington, DC and Minnesota that included the per-pack cigarette sales tax rates that are collected at the wholesale level with the excise tax. Now the listed tax rates are purely the excise tax portion, exclusive of the sales tax. This is not a change in the actual excise tax rates, just the way that the rates are listed.



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STATE CIGARETTE EXCISE TAX RATES & RANKINGS

Overall All States' Average: \$1.48 per pack
Major Tobacco States' Average: 48.5 cents per pack
Other States' Average: \$1.61 per pack

State	Tax	Rank
Alabama	\$0.425	47th
Alaska	\$2.00	11th
Arizona	\$2.00	11th
Arkansas	\$1.15	30th
California	\$0.87	33rd
Colorado	\$0.84	34th
Connecticut	\$3.40	3rd
Delaware	\$1.60	21st
DC*	\$2.50	10th
Florida	\$1.339	26th
Georgia	\$0.37	48th
Hawaii	\$3.20	4th
Idaho	\$0.57	42nd
Illinois	\$1.98	16th
Indiana	\$0.995	32nd
Iowa	\$1.36	25th
Kansas	\$0.79	36th
Kentucky	\$0.60	40th

State	Tax	Rank
Louisiana	\$0.36	49th
Maine	\$2.00	11th
Maryland	\$2.00	11th
Massachusetts	\$2.51	9th
Michigan	\$2.00	11th
Minnesota*	\$1.23	28th
Mississippi	\$0.68	37th
Missouri	\$0.17	51st
Montana	\$1.70	17th
Nebraska	\$0.64	38th
Nevada	\$0.80	35th
New Hampshire	\$1.68	19th
New Jersey	\$2.70	6th
New Mexico	\$1.66	20th
New York	\$4.35	1st
North Carolina	\$0.45	45th
North Dakota	\$0.44	46th
Ohio	\$1.25	27th

State	Tax	Rank
Oklahoma	\$1.03	31st
Oregon	\$1.18	29th
Pennsylvania	\$1.60	21st
Rhode Island	\$3.50	2nd
South Carolina	\$0.57	42nd
South Dakota	\$1.53	23rd
Tennessee	\$0.62	39th
Texas	\$1.41	24th
Utah	\$1.70	17th
Vermont	\$2.62	7th
Virginia	\$0.30	50th
Washington	\$3.025	5th
West Virginia	\$0.55	44th
Wisconsin	\$2.52	8th
Wyoming	\$0.60	40th
Puerto Rico	\$2.23	NA
Guam	\$3.00	NA
Northern Marianas	\$1.75	NA

* Tax stamp includes 75¢ health impact fee

Table shows all cigarette tax rates in effect now. Since 2002, 47 states, DC, and several U.S. territories have increased their cigarette tax rates more than 105 times. The three states in **bold type** have not increased their cigarette tax since 1999 or earlier. Currently, 30 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of \$1.00 per pack or higher; 14 states, DC, and Guam have cigarette tax rates of \$2.00 per pack or higher; five states and Guam have cigarette tax rates of \$3.00 per pack or higher; and one state (NY) has a cigarette tax rate more than \$4.00 per pack. Tobacco states are KY, VA, NC, SC, GA, and TN. States' average includes DC, but not Puerto Rico, other U.S. territories, or local cigarette taxes. The median tax rate is \$1.34 per pack. AK, MI, MN, MS, UT also have special taxes or fees on brands of manufacturers not participating in the state tobacco lawsuit settlements (NPMs).

The highest combined state-local tax rate is \$5.85 in New York City, with Chicago, IL second at \$5.66 per pack.

Other high state-local rates include Evanston, IL at \$5.48 and Anchorage, AK at \$4.206 per pack. For more on local cigarette taxes, see: <http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf>.

Federal cigarette tax is \$1.01 per pack. From the beginning of 1998 through 2002, the major cigarette companies increased the prices they charge by more than \$1.25 per pack (but also instituted aggressive retail-level discounting for competitive purposes and to reduce related consumption declines). In January 2003, Philip Morris instituted a 65-cent per pack price cut for four of its major brands, to replace its retail-level discounting and fight sales losses to discount brands, and R.J. Reynolds followed suit. In the last several years, the major cigarette companies have increased their product prices by almost \$1.00 per pack. **The U.S. Centers for Disease Control & Prevention estimates that smoking-caused health costs total \$10.47 per pack sold and consumed in the U.S.**

The average price for a pack of cigarettes nationwide is roughly \$6.00 (including statewide sales taxes but not local cigarette or sales taxes, other than NYC's \$1.50 per pack cigarette tax), with considerable state-to-state differences because of different state tax rates, and different manufacturer, wholesaler, and retailer pricing and discounting practices. AK, DE, MT, NH & OR have no state retail sales tax at all; OK has a state sales tax, but does not apply it to cigarettes; MN & DC apply a per-pack sales tax at the wholesale level; and AL, GA & MO (unlike the rest of the states) do not apply their state sales tax to that portion of retail cigarette prices that represents the state's cigarette excise tax.

Campaign for Tobacco-Free Kids, December 13, 2012 / Ann Boonn

For additional information see the Campaign's website at http://www.tobaccofreekids.org/what_we_do/state_local/taxes/.

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2011; media reports; state revenue department websites.

* Previous versions of this factsheet listed cigarette tax rates for Washington, DC and Minnesota that included the per-pack cigarette sales tax rates that are collected at the wholesale level with the excise tax. Now the listed tax rates are purely the excise tax portion, exclusive of the sales tax. This is not a change in the actual excise tax rates, just the way that the rates are listed.



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NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A \$1.56 CIGARETTE TAX INCREASE IN NORTH DAKOTA

Current state cigarette tax: 44 cents per pack (46th among all states and DC)
Smoking-caused health care costs in North Dakota: \$10.48 per pack

Annual health care expenditures in North Dakota directly caused by tobacco use: \$247 million
Smoking-caused state Medicaid program spending each year: \$47 million

New Annual Revenue from Increasing the Cigarette Tax Rate by \$1.56 Per Pack: \$41.09 million

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits from the Cigarette Tax Rate Increase	
Percent decrease in youth smoking:	24.0%
Kids in North Dakota kept from becoming addicted adult smokers:	9,900
Current adult smokers in the state who would quit:	8,200
Smoking-affected births avoided over next five years:	1,500
North Dakota residents saved from premature smoking-caused death:	5,400
5-Year health care cost savings from fewer smoking-caused lung cancer cases:	\$1.26 million
5-Year health care cost savings from fewer smoking-affected pregnancies & births:	\$3.33 million
5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:	\$2.33 million
5-Year Medicaid program savings for the state:	\$380,000
Long-term health care cost savings in the state from adult & youth smoking declines:	\$350.66 million

12.21.12 TFK / January 8, 2013

- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state more revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, or smokeless tobacco products. It is important to consider all aspects of state tax policy related to OTPs (including the new generation of smokeless tobacco products), including tax definitions, minimum pack sizes, tax rates, and whether the rates are based on price or weight, in order to ensure that they are adequately taxed to protect public health. To parallel the new \$2.00 per pack cigarette tax, the state's new OTP tax rate should be at least 60% of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

More information available at http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/ and <http://www.acscan.org/tobaccopolicy>.

For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>.

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Explanations & Notes

Health care costs listed at the top of the page are from the U.S. Centers for Disease Control and Prevention.

Projections are based on research findings that each 10% cigarette price increase reduces youth smoking by 6.5%, adult rates by 2%, and total consumption by about 4% (adjusted down to account for tax evasion effects). Revenues still increase because the higher tax rate per pack will bring in more new revenue than is lost from the tax-related drop in total pack sales.

The projections incorporate the effect of both ongoing background smoking declines and the continued impact of the 61.66-cent federal cigarette tax increase (effective April 1, 2009) on prices, smoking levels, and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, <http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf>.

Kids stopped from smoking and dying are from all youth ages 17 and under alive today. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2013 dollars.

Projections for cigarette tax increases much higher than \$1.00 per pack are limited, especially for states with relatively low current tax rates, because of the lack of research on the effects of larger cigarette tax increase amounts on consumption and prevalence. Projections for cigarette tax increases much lower than \$1.00 per pack are also limited because small tax increases are unlikely to produce significant public health benefits.

Ongoing reductions in state smoking rates will, over time, gradually erode state cigarette tax revenues (in the absence of any new rate increases). But those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues (which can drop sharply during recessions). In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused costs. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <http://tobaccofreekids.org/research/factsheets/pdf/0303.pdf>.

For other ways states can increase revenues (and promote public health) other than just raising its cigarette tax, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf>.

For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>.

Needed State Efforts to Protect State Tobacco Tax Revenues

Having each of the following measures in place will maintain and increase state tobacco tax revenues by closing loopholes, blocking contraband trafficking, and preventing tax evasion.

State tax rate on RYO cigarettes equals the state tax rate on regular cigarettes	Yes
State tax rates on other tobacco products match the state cigarette tax rate	Yes
State definitions of "cigarette" block cigarettes from wrongfully qualifying as "cigars"	No
State definitions of "tobacco product" reach all tobacco products	No
Minimum taxes on all tobacco products to block tax evasion and promote tax equity	No
"High-tech" tax stamps to stop counterfeiting and other smuggling and tax evasion	No
Retailers lose license if convicted of contraband trafficking	Yes
Street sales and mobile sales of cigarettes and other tobacco products prohibited	No
Non-Tobacco nicotine products without FDA approval banned	No



Testimony of Bill Shalhoob
Greater North Dakota Chamber of Commerce
HB 1387
January 29, 2013

Mr. Chairman and members of the committee, My name is Bill Shalhoob and I am here today representing the Greater North Dakota Chamber of Commerce, the champions for business in North Dakota. GNDC is working to build the strongest business environment possible through its more than 1,100 business members as well as partnerships and coalitions with local chambers of commerce from across the state. GNDC also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce. As a group we stand in opposition to HB ~~1223~~ and urge a do not pass from your committee on the bill.

1387

GNDC has a long history of opposing excise taxes, which we believe are onerous and unfair. We have a difficult time understanding this bill and the tax increase from 17 mills to 45 mills, a 165% raise according to our math, proposed in it. North Dakota certainly does not need the additional revenue that might come from this tax increase. Our focus in this session is on tax decreases, not increases. If we are trying to do social engineering, that is to discourage the practice, the tax code is a poor place to do it. If the goal is to eliminate smoking introduce a bill prohibiting the sale or use of tobacco products in the state. As witnessed by our experience with Minnesota increasing their cigarette tax with a "health fee", all we do is drive sales to a lower priced location by passing this bill. We see no acceptable reason to enact this tax.

Thank you for the opportunity to appear before you today in opposition to HB 1387. I would be happy to answer any questions.



North Dakota Retail Association
 ND Petroleum Marketers Association
 North Dakota Propane Gas Association

LEGISLATIVE BULLETIN

Testimony- HB 1387

January 29, 2013- House Finance and Tax Committee

Chairman Belter and Members of the House Finance and Tax Committee:

We know any type of tax tends to put the squeeze on consumer spending, potentially strain household budgets and curb retail sales. Which is exactly why the North Dakota Petroleum Marketers Association and its 400 members from across the state are **asking you to vote "NO" on HB 1387.**

Passage of HB 1387 will burden North Dakota's lower Income Earners. Cigarette excise taxes are regressive in nature. Based on data from the Center for Disease Control, roughly 30% of adults in North Dakota who earn less than \$15,000 are smokers, whereas only 16.0% of adults who earn \$50,000 or more are smokers. Raising taxes will further unfairly burden low-income earners.

Passage of HB 1387 will harm the retail sector as well.

Increasing the excise tax could hurt legitimate retailers when adult smokers shift purchases to other outlets, such as the internet. This would negatively affect North Dakota's 1,300 retailers.

Even more pressing is the fear Passage of HB 1387 could increase illegal cigarette trafficking.

An excise tax increase could provide incentives for smuggling and other contraband activities, resulting in lost revenues. According to the Bureau of

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Alcohol, Tobacco, Firearms, and Explosives, cigarette smuggling “has turned into a lucrative business for criminals who trade cigarettes and other tobacco products on the black market. Nationally it’s estimated \$5 billion in tax revenue annually is lost on the black market.

For all of these reasons, **NDPMA is asking for a “NO” vote on HB 1387.**

Thank you for your time and consideration.

Cigarette Tax Burdens Low-Income, Doesn't Deter Smoking

Lara Salah
ABC News
Thu, 20 Sep 2012

406 words

Higher cigarette taxes may be financially hurting low-income smokers rather than making them more likely to quit, according to a new survey by researchers at RTI International.

The survey, which looked at more than 13,000 people living in New York state, found that lower-income smokers in the state spent nearly a quarter of their household income on cigarettes compared with an average 2 percent spent by wealthier New York smokers.

The national average spent by lower-income smokers – those with a household income under \$25,000 – was 14 percent, according to the study, **published Thursday in PLoS ONE.**

New York carries a considerably higher excise tax than other states – \$4.35 per pack compared with the national average of \$1.46 per pack.

But even with the higher taxes, the state has not seen a decline in lower-income smokers over the last decade, according to RTI, a non-profit research group that received funding from the New York State Department of Health for the survey.

"Excise taxes are effective in changing smokers' behavior," Matthew Farrelly, chief scientist and senior director of RTI's public health policy research program, and study author, said in a statement. "But not all smokers are able to quit, and low-income smokers are disproportionately burdened by these taxes."

However, previous studies have shown that higher taxes have curbed smoking. According to Dr. John Spangler, professor of family and community medicine at Wake Forest Baptist Medical Center, the success the excise tax has had in reducing and eliminating smoking in some areas is enough to keep the program going.

More emphasis should be placed on what happens to the tax money, he said.

"What must be done, in the name for fairness, is to use the 'excessive taxation' which the poor pay to help them stop smoking," said Spangler.

The high cost of medications or other smoking cessation tools is one of the greatest barriers of quitting for those who are thinking about it, said Spangler. Spangler suggested that the tax money could be used to distribute low-cost or free smoking cessation medication, or to amp up tobacco-prevention programs in lower income neighborhoods, he said.

The researchers agreed, saying that the money spent should filter back into the lower-income community.

"Dedicating some of the revenue from cigarette excise taxes for targeted programs that help low-income smokers quit may help alleviate the regressivity of cigarette excise taxes," the authors wrote.