MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (12-07)

Subject

Initiative petition from Robert Hess regarding a proposed amendment to Chapters 149 and 196 of the Revised Statutes of Missouri. (Received January 10, 2012)

Date

January 30, 2012

Description

This proposal would amend Chapters 149 and 196 of the Revised Statutes of Missouri.

The amendment is to be voted on in November, 2012.

Public comments and other input

The State Auditor's office requested input from the **Attorney General's office,** the **Department of Agriculture,** the **Department of Economic Development,** the **Department of Elementary and Secondary Education,** the **Department of Higher Education,** the **Department of Health and Senior Services,** the **Department of Insurance, Financial Institutions and Professional Registration,** the **Department of Mental Health,** the **Department of Natural Resources,** the **Department of Corrections,** the **Department of Labor and Industrial Relations,** the **Department of Revenue,** the **Department of Public Safety,** the **Department of Social Services,** the **Governor's office,** the **Missouri House of Representatives,** the **Department of Conservation,** the **Department of Transportation,** the **Office of Administration,** the **Office of State Courts Administrator,** the **Missouri Senate,** the **Secretary of State's office,** the **Office of the State Public Defender,** the **State Treasurer's office, Cass County, Cole County, Greene County, Jasper County, St. Louis County,** the **City of Cape Girardeau,** the **City of Kansas City,** the **City of Mexico,** the **City of St. Joseph,** the **City of St. Louis, Cape Girardeau 63 School District, Hannibal 60 School District, Rockwood R-VI School District, Linn State Technical College, Metropolitan Community College, University of Missouri** and **St. Louis Community College.**

Robert L. Hess, II provided information as a proponent of the proposal to the State Auditor's office.

Assumptions

Officials from the **Attorney General's office** indicated:

The proposal would simplify one issue related to enforcement of the escrow provisions. Due to the complexity of the current litigation related to the tobacco settlement; however, they do not expect the proposal to immediately result in savings. After litigation concludes, they assume the proposal would result in a savings of .5 AAG II, ($47,500) resulting in a savings of $39,963 in FY13 to the General Revenue Fund.

They also note that the amendment to section 196.1003 has the potential to result in an increase to the amount of payments received by Missouri from the Master Settlement Agreement (MSA). Because the amount of the payments is calculated based on variables such as the amount of sales in a given year, they cannot specifically predict the dollar amount.

Officials from the **Department of Agriculture** indicated that there was no fiscal impact on their department.

Officials from the **Department of Economic Development** indicated they anticipate no fiscal impact as a result of the proposed legislation.

Officials from the **Department of Elementary and Secondary Education** indicated:

This proposal will present no costs to the state (none that will not be covered by the increased revenue); but has the potential to add significant funding to Missouri public schools.

According to The Campaign for Tobacco-Free Kids in Washington estimates, this proposal which also would raise taxes on other tobacco products besides cigarettes, would generate about $283 million annually for the state. The proposal would allot half of that money to elementary and secondary education, 30 percent to colleges and universities and 20 percent to programs intended to prevent people from using tobacco or help them quit doing so.

A 50% allocation to K-12 education would mean an additional $141.5 million of funding (based on the estimate of The Campaign for Tobacco-Free Kids in Washington). Since it is currently projected that funding for the Foundation Program is approximately $292 million deficient, these funds could be put to good use.

Officials from the **Department of Higher Education** indicated:

This version of initiative petition 12-07 is estimated to cost their department approximately $76,170 in the first full fiscal year in which its provisions are in effect.

Section 149.018.8 contains a provision which reads as follows: "The department of higher education shall ensure that at least twenty-five percent of the moneys distributed from the Public Higher Education Account are used for programs and initiatives related to the education, training, and development of future caregivers including physicians, dentists, optometrists, pharmacists, nurses, and other health care providers." This provision would require the MDHE to perform an audit function to track the use of funds distributed to institutions from the Public Higher Education Account created by the petition. The MDHE does not currently perform any such function in relation to funds appropriated to institutions and would be required to hire one full-time employee (FTE) with related experience to fulfill MDHE's duties required by the provision.

With an annual salary of $50,000 and a fringe-benefit package estimated at 52.34% or $26,170, the MDHE estimates the total cost of the FTE to be $76,170 in the first full fiscal year in which the provisions of the initiative petition are in effect. The negative fiscal impact of the initiative petition on the MDHE would subsequently increase in years in which staff salary raises were implemented by the state or the costs of fringe-benefit packages increased in a proportion equal to those cost increases.

Officials from the **Department of Health and Senior Services** (**DHSS)** indicated:

This initiative petition is similar to IP 11-105. The minor differences do not result in any changes in the fiscal impact submitted in response to IP 11-105 for the DHSS.

Comments:

The fiscal impact for IP 12-07 is the same as that submitted for IP 11-105 for DHSS. At the discretion of the Missouri Healthy Families Commission, DHSS assumes the department may play a role in administering tobacco quit assistance and comprehensive tobacco control efforts. The Missouri Healthy Families Commission would be assigned to DHSS for budgeting and reporting functions only. DHSS would be required to fund the activities of the Commission including the quarterly meetings. At this time, it is not possible to estimate the activities the department will be involved with and therefore assumes $6,480 (9 members X $180 per member/meeting X 4 meetings) to unknown costs for the proposed legislation. DHSS assumes all costs will be offset with revenue generated by the language resulting in a $0 net fiscal impact. DHSS defers to the Office of Administration regarding the statewide fiscal impact to this proposed legislation.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** indicated this petition, if passed, will have no cost or savings to their department.

Officials from the **Department of Mental Health** indicated this proposal places no direct requirements on their department that would result in a fiscal impact.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this initiative petition.

Officials from the **Department of Corrections** indicated this initiative petition is no impact to the department.

Officials from the **Department of Labor and Industrial Relations** indicated this initiative petition has no fiscal impact on their department.

Officials from the **Department of Revenue** indicated increased costs would be $78,499 in fiscal year 2013, $40,153 in fiscal year 2014, and $40,570 in fiscal year 2015.

Based upon FY11 sales of 547 million stamps the tax increase of 3.65 cents per cigarette (73 cents per pack of 20) would raise approximately $399 million per calendar year. Currently, the tax collected on roll your own tobacco is not reported separately from other tobacco products. The department is not able to estimate what the impact the tax increase would have on these products. Additionally, some portion of the $158.7 million reported as the manufacturers invoice price for all other tobacco products sales during FY11 would include roll your own tobacco. However, if you based the tax increase on other tobacco products on the full amount reported in FY11, it would increase total collections by $23.8 million dollars per year.

Under current law, wholesales receive discounts equal to three percent of the face value of each cigarette stamp. Based upon the FY11 sales of 547 million stamps, wholesalers received discounts of approximately $2,789,700. Under the proposed legislation they would have received only $2,735,000 in discounts of the tax rate did not increase. However, if the tax rate increases by $.73, wholesalers would have received $14,769,000. Under the proposed legislation, they would receive approximately $12 million less in allowance.

The department will have programming expenses of $40,068 to update and create tobacco processing systems.

The department will need one Revenue Processing Technician to perform additional duties required by Section 196.1029.

Comments

This initiative would go before voters on November 6, 2012. If passed, it would go into effect January 1, 2013. This would give Taxation approximately 45 days to implement. The Department of Revenue suggests the effective date be changed to either July 1, 2013 or January 1, 2014. This would allow time to develop new forms, communicate this to licensees, and to complete any programming needed. This would also allow additional time for the department to request bids on a new stamp design, if necessary.

149.011(2) - By increasing the weight from 3 lbs to 4 lbs per thousand and including language that in can be wrapped in anything, this definition of cigarette would appear to include "little cigars." This would require stamping of packs of little cigars. It is unclear if little cigars would also fall under the MSA requirements and the Fire Safety

requirements. In addition the definition of a cigarette under section 320.350, fire safety statutes, would be in conflict with the definition of cigarette under this legislation.

149.011(14) - The department requests clarification of what products are defined as "other product containing tobacco intended or expected to be consumed without being combusted."

149.018.4 (1) – Section 149.018.4-The department recommends removing the one and one half of one percent limit on the cost of collection and indicating the cost of collection shall be equal to the actual costs incurred by the department. At a minimum, the cap should be increased to three percent of the moneys collected.

149.018.4(3) - Section 149.018.4 - The department requests clarification of how it is to determine if the increase in tax caused a decrease in the consumption of cigarettes. Over the past several years there has been a decline in the number of stamps sold which could be attributed to factors such as discontinued use of cigarettes due to heath related issues or to the recent increase of the federal cigarette tax. There has been a slight increase in the amount of tax collected on other tobacco products, which may be attributed to public use of other tobacco products such as pipe tobacco, used as roll you own tobacco or purchasing little cigars which are similar in appearance to cigarettes but taxed at a lower federal tax rate. Each year the contributing factors to any decrease in the amounts deposited to the accounts could change and they may not be easily identified. It might be beneficial to add language that would require DOR to consult with the Department of Health in making the determination on what to attribute any decreases to.

149.018.5 - The department requests clarification of who is to make the distributions to the Tobacco Use Prevention and Quit Assistance Account, to the Public Education Account and the Public Higher Education Account**.**

149.018.10 - Imposes the taxes on existing inventory of any person licensed under Chapter 149. Retailers are not required to be licensed under Chapter 149. It is unclear if licensees who also operate retail establishments will be required to remit the tax increase on the product held by their retail operation. This legislation would appear to single out those retailers who happen to have a license and would not be inclusive of all other retailers. By only targeting those licensed under Chapter 149 for payment of the tax increase of in stock inventory, it opens up the possibility for stockpiling by other large retailers and allowing them to reap a windfall after the tax increase takes effect. In addition stockpiling of cigarettes could result in stamp shortages by DOR.

196.1023.4 –This appears to requires non-participating manufacturers to post a bond if its cigarettes were not sold in the state during any one of the four preceding calendar quarters, if it or any person affiliated with it failed to make a full and timely escrow deposit or if it or any person affiliated with it was removed from any states directory during any of the five preceding calendar years. This will require continual research to determine if any non-participating manufacturers meet the conditions for a bond. Quarterly escrow deposits must be made within 30 days after the end of each quarter

under section 196.1003.1(4). This legislation appears to require a non-participating manufacturer to post a bond 10 days before the start to the next quarter in order to be listed in the directory for the next quarter. These two requirements appear to be in conflict with each other. In addition the department does not receive information from wholesalers regarding units sold until the 20th of each month. The department will not be able to determine if a bond is required 10 days before a new quarter begins because not all of the information regarding sales will be received more than 10 days before the start of the quarter.

The department recommends adding language to allow the department to promulgate rules in order to carry out the provisions of sections 149.011 to 149.215 or at least to cover the new section 149.018.

Officials from the **Department of Social Services** indicated:

This initiative petition seeks to impose an additional tax on tobacco products. The additional tax is 3.65¢ per cigarette, 25% of the manufacturer's invoice price for roll-your-own tobacco, and 15% of the manufacturer's invoice price for all other tobacco products. The tax is effective January 1, 2013.

The state may retain up to 1.5% of the total collected to cover the additional actual costs incurred by the state in collecting and enforcing the new taxes.

The petition creates the Health and Education Trust Fund for deposit of the remaining additional taxes collected. Money in the fund shall be credited to three separate accounts:

- Tobacco Use Prevention and Quit Assistance Account (20%);
- Public Education Account (50%); and
- Public Higher Education Account (30%).

The General Assembly may appropriate up to 1/5th of 1% of the Tobacco Use Prevention and Quit Assistance Account to the Attorney General and other state agencies for the purpose of enforcing and administering the Master Settlement Agreement.

Tax proceeds can be used only for the purposes stated in the initiative.

On an annual basis, the Director of the Department of Revenue must determine whether the new taxes imposed have directly caused a decrease in tobacco consumption, thereby causing a reduction in the amount of moneys collected and deposited into the Fair Share Fund, the Health Initiatives Fund (HIF), or the state school moneys fund. If this is the case, the Department of Revenue must transfer from the Health and Education Trust Fund to these three funds an amount equal to the amount of money that were not collected and deposited into those funds because of the taxes imposed by this initiative. Transfers are

limited to 3% of the total moneys collected from the additional tobacco tax imposed by this initiative.

The department currently receives money from the Health Initiatives Fund. Theoretically, the Health Initiatives Fund should be made whole by this transfer and there would be no fiscal impact to their department.

The proposal also creates the Missouri Healthy Families Commission to administer the activities funded by the Tobacco Use Prevention and Quit Assistance Account. The department may designate a non-voting, ex officio representative to the Board of Directors of the Commission. They do not expect a significant fiscal impact due to this provision.

The balance of the proposal concerns tobacco stamps affixed to tobacco products and so-called non-participating manufacturers. These provisions have no impact the their department.

Officials from the **Governor's office** indicated there should be no added costs to their office if this amendment is approved by the voters.

Officials from the **Missouri House of Representatives** indicated there is no fiscal impact to their agency.

Officials from the **Department of Conservation** indicated that no adverse fiscal impact to their department would be expected as a result of this proposal.

Officials from the **Office of Administration** indicated:

This proposal imposes an additional tax of 3.65¢ per cigarette (73¢ per pack of 20); levies an additional 15% tax on other tobacco products (OTP); levies an additional tax of 25% on newly-defined "roll-your-own" products; changes the compensation rate for wholesalers; and requires non-participating manufacturers to post a bond. The changes are effective January 1, 2013.

New monies are deposited into the Health and Education Trust Fund and allocated as follows:

1) Tobacco Use Prevention and Quit Assistance Account (20%);
2) Public Education Account (50%);
3) Public Higher Education Account (30%).

The Missouri Healthy Families Commission is created to administer the Tobacco Use Prevention and Quit Assistance Account. The Commission is assigned to the Department of Health and Senior Services for budget and reporting purposes. The nine member commission is appointed by the Governor with advice and consent of the Senate.

The Public Education Account is appropriated to DESE for distribution to school districts with at least 25% of the money to be used in direct classroom expenditures.

The Public Higher Education Account is distributed to public colleges and universities in proportion to the total base operating appropriations for all public colleges and universities in the preceding fiscal year.

The proposed amendment to the Revised Statutes of Missouri should not result in additional costs or savings to the Office of Administration should it be approved by the voters. However, there is a statewide impact on revenues to the state.

The Division of Budget and Planning (BAP) calculates the impact of the cigarette tax increase by estimating the quantity of packs currently sold, applying the midpoint formula for elasticity to estimate the new quantity of packs, then calculating increased revenues.

BAP notes the following:

1. BAP estimates the current retail price of one cigarette pack is $4.50 = $4.33 price + $0.17 excise tax. Prices vary substantially depending on brand and packaging. This analysis does not include additional impacts of any retail sales taxes.
2. The website "Tobacco Free Kids" estimates the average cigarette tax as $1.46 per pack, as of June 28. 2011.[1] A tax of $0.90 (the proposed $0.73 plus the existing tax of $0.17) would be below this average, but would exceed the tax rate of four neighboring states.
3. State cigarette taxes in FY11 totaled $89,965,910, according to the SAM II Data Warehouse.[2]
4. "Elasticity" is the ratio of the change in quantity sold to the change in price. The CDC estimates the cigarette price elasticity as -0.4,[3] which suggests a 4% drop in sales for each 10% increase in cost. However, research by Goolsbee (2004)[4] demonstrates the elasticity for state cigarette taxes likely exceeds -1.2, and could exceed -2.0, depending on internet access.
5. Given the above information, BAP estimates the elasticity at -0.8 for this analysis.
6. This analysis uses the midpoint-method to estimate the new quantity (Q2) of cigarette packs taxed as a result of the tax increase: E = {(Q2-Q1) / AVG (Q2,Q1)} / {(P2-P1) /AVG (P2,P1)}

Based on this information, BAP estimates increased cigarette tax revenues of $332.4M annually (see Table 1).

Similarly for the increased OTP tax:

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[1] http://www.tobaccofreekids.org/research/factsheets/pdf/0222.pdf, accessed November 22, 2011.
[2] Data warehouse accessed September 21, 2011
[3] http://www.cdc.gov/tobacco/data_statistics/fact_sheets/economics/econ_facts/index.htm, accessed September 21, 2011.
[4] http://faculty.chicagobooth.edu/workshops/AppliedEcon/archive/pdf/goolsbee.pdf, accessed September 21, 2011

1. BAP estimates the current retail price of one “unit” of tobacco is $4.50 = $4.09 + $0.41 excise tax. Prices vary substantially depending on brand and packaging. This analysis does not include additional impacts of any retail sales taxes.
2. BAP estimates the elasticity as -0.8, as above, and uses the midpoint formula, as above.

Based on this information, BAP estimates increased OTP taxes of $19.5M annually (see Table 2).

BAP notes that currently, "roll-your-own" products are taxed as an OTP product. However, BAP does not have data on what proportion of OTP sales would qualify as "roll-your-own", and thus for the higher proposed tax rate. Therefore, there will also be an additional unknown increase in revenues resulting from this source.

The proposal directs the DOR to estimate the decreased consumption of cigarettes and OTP as a result of this proposal, and then to hold existing dedicated funds harmless. This analysis estimates a decrease of 60M cigarette packs. At 17¢ per-pack, this implies the DOR would need to transfer an estimated $10.2M of the new cigarette revenues into existing funds. However, this transfer cannot exceed 3% of the new revenues, which is estimated at 10.0M. Similarly, this analysis estimates a decrease of 3.7M "units" of OTP sales. At an estimated tax rate of 41¢, this suggests a transfer of $1.5M of the new OTP revenues into existing funds. However, this transfer cannot exceed 3% of the new revenues, which is estimated at 0.6M.

BAP defers to DOR for impacts of the changes to the compensation rate and bond postings; and to the Attorney General’s Office on the impacts in changes related to the Master Settlement Agreement.

Table 1.

Cigarettes	Current (FY11)	New
Tax (per pack)	$0.17	$0.90
Estimated Cost Per Pack	$4.50	$5.23

Estimated Packs with Tax Increase, using Midpoint Formula

FY11 Revenues	$89,965,910
Q1	529,211,235
P1	$4.50
P2	$5.23
Estimated Elasticity (see notes)	-0.8
Q2	469,281,167
Total Revenues	$422,353,050
Increased Revenues	$332,387,140

Table 2.

OTP	Current (FY11)	New
Tax (per unit)	10%	25%
Estimated Retail Cost Per Unit	$4.50	$5.11
Estimated Wholesale Cost Per Unit	$4.09	

Estimated Units with Tax Increase, using Midpoint Formula	
FY11 Revenues	$15,551,490
Estimated Current Wholesales	$155,514,900
Q1	38,023,203
P1	$4.50
P2	$5.11
Estimated Elasticity (see notes)	-0.8
Q2	34,328,641
Estimated New Wholesales	$140,404,142
Total Revenues	$35,101,036
Increased Revenues	$19,549,546

Officials from the **Office of State Courts Administrator** indicated there is no fiscal impact on the courts.

Officials from the **Secretary of State's office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.3 million historically appropriated in odd numbered fiscal years and $100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In fiscal year 2011, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost $1.02 million to publish (an average of $170,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this initiative petition will not have any significant impact on their office.

Officials from the **State Treasurer's office** indicated there is no fiscal impact to their office.

Officials from the **City of Kansas City** indicated this proposal does not address the activities of their city but authorize state taxes and state activities, therefore, they have no fiscal impact on the city.

Officials from the **Rockwood R-VI School District** indicated as it is written, the district sees no estimated cost or savings from this measure.

Officials from **Linn State Technical College** indicated that based on the information presented, if this results in an increase in general revenue for the State of Missouri, there may be a positive fiscal impact on their college since the majority of their state appropriations come from general revenue funds.

Officials from **Metropolitan Community College** indicated this legislation would have a positive, but unknown, fiscal impact on their college.

The **State Auditor's office** estimated annual audit costs required in the proposal would be up to an estimated $40,000.

Robert L. Hess, II provided information as a proponent of this initiative petition.

As set forth in the enclosed analysis, tobacco use causes approximately $2.13 billion in annual health care expenditures in Missouri. Smoking specifically causes approximately $532 million in annual costs for the Missouri Medicaid program. The initiative petition would increase the tax on cigarettes by $0.73 per pack, would increase the tax on roll-your-own tobacco by 25%, and would increase the tax on other tobacco products by 15%. Those tax increases would raise over $283 million in new state revenue to help adults stop smoking, to keep kids from starting smoking, and to support public education and higher education.

In addition to raising new revenue, the tax increase would have an immediate public health benefit. Each 10% cigarette price increase reduces youth smoking by 6.5%. Each 10% cigarette price increase reduces adult smoking by 2%. The total expected reduction in smoking consumption as a result of a 10% price increase is 4%. It is conservatively estimated that the initiative petition would decrease youth smoking by 12% in Missouri and keep 45,700 kids in Missouri from becoming addicted adult smokers and help 28,200 current adult smokers quit. Twenty two thousand (22,000) Missouri residents would be saved from premature smoking-caused deaths.

There would also be a fiscal benefit to the citizens of the state from the improved public health. In the first five years, there would be more than $30 million in savings from fewer smoking-related pregnancies, births, heart attacks and strokes. The long term savings would be approximately a billion dollars.

NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS
FROM A 73-CENT CIGARETTE TAX INCREASE IN MISSOURI

Current state cigarette tax: 17 cents per pack (51st among all states)
Smoking-caused costs in Missouri: $7.61 per pack

Annual healthcare expenditures in Missouri directly caused by tobacco use: $2.13 billion
Smoking-caused state Medicaid program spending each year: $532.0 million

New Annual Revenue from Increasing the Cigarette Tax Rate by 73 Cents Per Pack: $265.7 million
Additional Revenue from Raising OTP Rates to 25% Manufacturer's Price: $17.3 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:	12.0%
Kids in Missouri kept from becoming addicted adult smokers:	45,700
Current adult smokers in the state who would quit:	28,200
Smoking-affected births avoided over next five years:	7,950
Missouri residents saved from premature smoking-caused death:	22,000
5-year health savings from fewer smoking-affected pregnancies & births:	$13.5 million
5-year health savings from fewer smoking-caused heart attacks & strokes:	$17.4 million
Long-term health savings in the state from adult & youth smoking declines:	$1.0 billion

- Tax increases of less than roughly 25 cents per pack or 10% of the average state pack price 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 revenues, 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, RYO, or smokeless. To parallel the new $0.90 per pack cigarette tax, the state's new OTP tax rate should be at least 30% of 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.

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
Loopholes for the new generation of smokeless products (snus, tablets, etc.) closed	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	Yes
Non-Tobacco nicotine products without FDA approval banned	No

More information available at
http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/

Campaign for Tobacco-Free Kids 10.07.10 / Ann Boonn, October 26, 2011

Explanations & Notes

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 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 kids alive today. Long-term savings accrue over the lifetimes of persons who stop smoking or never start because of the rate

increase. All cost and savings in 2004 dollars. Projections will be updated when new relevant data or research becomes available.

Ongoing reductions in state smoking levels 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

Additional Information on Tobacco Product Tax Increases

Raising State Cigarette Taxes Always Increases State Revenues and Always Reduces Smoking, http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf.

Responses to Misleading and Inaccurate Cigarette Company Arguments Against State Tobacco Tax Increases, http://tobaccofreekids.org/research/factsheets/pdf/0227.pdf.

State Cigarette Excise Tax Rates & Rankings, http://tobaccofreekids.org/research/factsheets/pdf/0097.pdf.

Top Combined State-Local Cigarette Tax Rates (State plus County plus City), http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf.

State Cigarette Tax Increases Benefit Lower-Income Smokers and Families, http://tobaccofreekids.org/research/factsheets/pdf/0147.pdf.

The Best Way to Tax Smokeless Tobacco, http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf.

The Problem with Roll-Your-Own (RYO) Tobacco, http://tobaccofreekids.org/research/factsheets/pdf/0336.pdf.

How to Make State Cigar Tax Rates Fair and Effective, http://tobaccofreekids.org/research/factsheets/pdf/0335.pdf.

State Benefits from Increasing Smokeless Tobacco Tax Rates, http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf.

The Case for High-Tech Cigarette Tax Stamps, http://tobaccofreekids.org/research/factsheets/pdf/0310.pdf.

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.

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 questions or model legislation, please contact factsheets@tobaccofreekids.org.
For all TFK factsheets on tobacco tax increases, see
http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/

The State Auditor's office did not receive a response from the **Department of Public Safety,** the **Department of Transportation,** the **Missouri Senate, Cass County, Cole County, Greene County, Jasper County, St. Louis County,** the **City of Cape Girardeau,** the **City of Mexico,** the **City of St. Joseph,** the **City of St. Louis, Cape Girardeau 63 School District, Hannibal 60 School District, University of Missouri, and St. Louis Community College**.

Fiscal Note Summary

Estimated additional revenue to state government is $283 million to $423 million annually with limited estimated implementation costs or savings. The revenue will fund only programs and services allowed by the proposal. The fiscal impact to local governmental entities is unknown. Escrow fund changes may result in an unknown increase in future state revenue.