



Health Education Inc.

Preventing Tobacco Use in Nebraska

BILL SUMMARY AND ANALYSIS

LB 438, Introduced by Sen. Sarah Howard Referred to Revenue Committee

Increases the tax in cigarettes from 64 cents per pack to \$2.14 per pack. Increases the tax on tobacco products other than snuff from 20 percent of wholesale to 65 percent of wholesale.

Sets the Nebraska Health Care Cash Fund as the receiving and distribution fund for all cigarette tax revenues. The receiving and distribution fund for revenues from the taxation of other tax products remains the Tobacco Products Administration Cash Fund.

Designates a variety of health and safety initiatives and organizations as recipients of cigarette tax revenues. Recipients include public health departments (\$6 million), the College of Public Health at the University of Nebraska Medical Center (\$4 million), and \$2.4 million for the Tobacco Prevention and Control Program.

Creates the Behavioral Health Provider Rate Stabilization Fund for reimbursement of behavioral health services providers. Provides that the Nebraska Health Care Cash Fund issue a portion of cigarette taxes (\$8 million) as funding for the Behavioral Health Provider Rate Stabilization Fund.

Public Health Implications

Much research has been done on excise taxes and cigarettes, showing that as price goes up, use goes down. Given this research, organizations including the Institute of Medicine (IOM) recommend raising the price of both cigarettes and non-cigarette tobacco products.

The Tobacco Control Legal Consortium (TCLC) agrees. According to the TCLC:

“Raising tobacco taxes reduces tobacco use and increases state revenue. Raising tobacco excise taxes has substantial, long-lasting beneficial effects on public health and state economies. Generally, as prices go up, consumption of tobacco products goes down. Raising cigarette excise taxes reduces consumer demand and thereby reduces tobacco use among adults and youth, prompts individuals to attempt to quit, discourages youth initiation, increases state revenue, and yields considerable health savings for individuals (smokers and non-smokers exposed to tobacco smoke) and the population-at large.

“Evidence from the United States indicates that a 10 percent increase in the price of cigarettes, when maintained against inflation, reduces youth smoking rates by at least 6.5 percent, adult smoking rates by 2 percent, and overall consumption by about 4 percent.”

Fiscal Impact

This bill would likely have a variety of fiscal impacts: raising revenue from taxing cigarette and other tobacco products; reducing tobacco use via increased tobacco prices resulting from the increased tobacco taxes; and impacting health via funding a variety of health initiatives.

Raising tobacco taxes by itself impacts revenue and health care costs. From the Campaign for Tobacco Free Kids:

Raising Tobacco Taxes Reduces Health Care Costs

Tobacco use costs about \$170 billion each year in health care expenses, more than 60 percent of it paid by taxpayers through government programs like Medicare and Medicaid.⁶

Smokers’ lifetime health care costs average about \$21,000, despite shorter life spans.

Since many smoking-related diseases take years to develop, health care cost savings from a cigarette tax increase will be relatively small in the first few years after an increase; however, they grow quickly. These benefits will be even greater if a portion of the tobacco tax revenue is dedicated to support tobacco prevention and cessation programs. Because tobacco tax increases work best to reduce smoking among youth, lower-income smokers and pregnant women, those smoking declines will reduce state Medicaid program expenditures. Similarly, decreasing smoking rates among workers reduces public and private sector employers’ health insurance costs – while also decreasing business productivity losses from smoking-caused job performance declines and work absences, and from losing productive workers to smoking-caused disease or disability. Among the many other savings from smoking reductions are reduced property losses from smoking-caused fires, and reduced cleaning and maintenance costs.

Raising Tobacco Taxes Generates Revenue

Tobacco taxes are a reliable source of revenue for states.

In fact, every state that has increased its cigarette tax by a significant amount has enjoyed a substantial increase in revenue, despite ongoing and tax-specific smoking declines and any ongoing or increased tax evasion. Put simply, the new revenue the state receives on each pack sold in the state after a cigarette tax increase always significantly outweighs the

revenue losses from the decline in total pack sales caused by the rate increase. State cigarette and overall tobacco tax revenues are also much more predictable and stable than state income tax or corporate tax revenues, which can decline sharply during recessionary periods.

While the tobacco industry and its allies argue that raising tobacco taxes hurts local businesses, money spent on cigarettes in state retail stores does not disappear when state smokers quit or cutback. They will simply shift some of their spending on cigarettes to other items, thereby keeping more money in the state.

For example, pack-a-day smokers who quit because of a state cigarette tax increase can spend the more than \$2,300 per year that they would have spent on cigarettes on other goods and services, including products sold in local convenience stores.

Beyond the impact on health care costs of reduction in tobacco use, the bill would likely impact health care costs through the funding of a variety of health initiatives.

According to the Centers for Disease Control and Prevention, estimates of annual direct health care costs related to smoking are between \$130 billion and \$180 billion per year, nationally. Reductions in tobacco use lead to health savings, in the immediate term, and in the long-term.

You can follow this and other tobacco-related bills at healtheducation.org.