



STATE BENEFITS FROM INCREASING SMOKELESS TOBACCO TAX RATES

Many states have been increasing their cigarette tax rates both to increase state revenues and to reduce smoking, especially among kids. But by neglecting to increase their smokeless and other non-cigarette tobacco taxes at the same time, some of these states have missed an opportunity to further reduce overall youth tobacco use and tobacco-caused harms, and secure additional new state revenues. Smokeless tobacco use is harmful and can be deadly. It causes oral cancer, gum disease, and nicotine addiction; and it increases the risk of cardiovascular disease, including heart attacks.¹ However, raising smokeless tobacco tax rates would directly reduce smokeless tobacco use, its harms, and costs.

Smokeless Tobacco Use Harms Kids and Leads to Lifetime Addictions

It is well established that smokeless tobacco use causes serious harm, including gum disease, and substantially increased risk of oral cancer.² Even worse, smokeless use during youth can lead to a lifetime of addiction to smokeless tobacco or, frequently, to cigarettes, as the nicotine addiction created by smokeless use ultimately leads to habitual smoking.³

Especially with the new smokeless tobacco products on the market, it is even more important to take measures to prevent youth initiation. Moist snuff now comes in a wide variety of kid-friendly flavors such as grape, apple, and vanilla, and because they are taxed – and priced – lower than cigarettes, they are more accessible than cigarettes. The big cigarette companies have recently introduced snus products, moist snuff and other flavorings in small teabag-like pouches that do not require spitting, using their popular cigarette brand names (R.J. Reynolds' Camel Snus, Philip Morris' Marlboro Snus, Liggett Group's Grand Prix Snus, and Lorillard's Triumph Snus). These products are so concealable that one high school student has admitted using Camel Snus during class, saying, "It's easy, it's super-discreet...and none of the teachers will ever know what I'm doing."⁴

Raising Smokeless Tobacco-Tax Rates Reduces Youth Use

As with cigarettes, raising the price of smokeless tobacco products through state tax increases or other means will prompt a reduction in smokeless tobacco use, especially among adolescents and young adults. For example, one study found that a 10 percent increase in smokeless tobacco prices reduces adult consumption by 3.7 percent and reduces male youth consumption by 5.9 percent, with two-thirds of that reduction coming from kids stopping any use of smokeless tobacco at all.⁵ In West Virginia (where male teenagers are twice as likely to use smokeless tobacco as any other male teenagers in the U.S.), an increase in smokeless tobacco prices would cause more than half to quit.⁶

After reviewing a number of research studies on the relationship between tobacco product prices and use rates, the independent U.S. Centers for Disease Control and Prevention (CDC) Task Force on Community Preventive Services similarly concluded that increases in tobacco prices decrease both adult and youth prevalence and reduce the quantity used by adolescents and young adults who do not quit. The Task Force also concluded that adolescents and young adults are two to three times more sensitive to tobacco price changes than adults. Accordingly, the Task Force strongly recommends excise tax increases to raise the unit prices of tobacco products in order to: 1) reduce consumption of tobacco products; 2) reduce tobacco-use initiation; and 3) increase tobacco-use cessation.⁷

Increasing Cigarette Taxes without Increasing Smokeless-Tobacco Taxes Prompts Kids to Start Using Smokeless

When cigarette prices and taxes increase without corresponding increases to other tobacco product taxes and prices, some users, especially youths, will simply switch to smokeless tobacco rather than quitting or cutting back or avoiding tobacco use altogether. In the 1980s, for example, when state cigarette taxes climbed much higher and faster than smokeless tobacco taxes, there was a substantial increase in smokeless tobacco use, especially among male youths, who make up 90 percent of adolescent smokeless tobacco users.⁸ Data and research also show that adolescents substitute smokeless tobacco

for cigarettes when smokeless is substantially cheaper.⁹ Moreover, recent research has confirmed that cigarette smokers who switch to smokeless tobacco have much higher risks of death and other health harms than those who quit tobacco use completely.¹⁰

Setting Smokeless Tobacco Tax Rates Effectively

Simply raising all state tobacco taxes will produce enormous benefits by reducing overall tobacco use, with an especially powerful negative effect on tobacco use by kids. At the same time, it is important to make sure that the tax rates on all tobacco products are roughly comparable, to minimize shifts from one tobacco product to another cheaper one and to maximize the overall reduction in tobacco use.

One way to create comparable rates is to make sure that the cigarette, smokeless, and other tobacco product tax rates – or the proposed increased rates – all roughly equal the same percentage of the underlying prices for the products (either those charged to consumers or those charged by the manufacturers to wholesalers). In most states, smokeless and other non-cigarette tobacco-product taxes are already set at a percentage of manufacturer or wholesale prices. While cigarette taxes are typically set as certain amounts per pack, it is possible to translate those amounts into percentages of the prices charged by manufacturers through the manufacturer price data available from the U.S. Department of Agriculture's Economic Research Service and from other sources. Another option is to compare the state cigarette tax per pack amount to the average retail price of cigarettes in the state, while also translating the other tobacco product taxes into retail price percentages.

Percentage of Price vs. Weight-Based Taxes. The U.S. Smokeless Tobacco Company (UST), the biggest U.S. manufacturer of smokeless tobacco products, has been trying to get more states to tax smokeless tobacco (specifically, moist snuff products) based on weight rather than through a percentage of wholesale or retail price. Over time, such shifts to a weight-based tax dramatically reduce the portion of state revenues gained from their smokeless tax, reducing the effective tax on the kinds of higher-priced premium products that UST sells and increasing the effective tax on lower-priced brands, predominantly sold by UST competitors.^{*} In contrast, a percentage-of-price tax levies a fixed percentage tax on all smokeless products, ensuring that those products that bring in higher amounts of revenues and profits also pay higher amounts per can or dose while still paying the exact same percentage tax as less profitable brands. Indeed, a percentage-of-price tax is a flat tax.¹¹

But this is not just an issue of premium versus lower-price brands. The vast majority of kids who use smokeless tobacco use the higher-priced premium brands, such as UST's Copenhagen.¹² By ultimately lowering the price on the smokeless tobacco products most popular with kids, shifting to a weight-based tax would increase smokeless tobacco use among youth.¹³

Taxing by weight also provides a massive tax break to the new generation of smokeless tobacco products (e.g., Ariva, Stonewall, Snus products) that can weigh as little as one-tenth as much as standard smokeless products. Accordingly, states with weight-based smokeless or moist snuff taxes will see their revenues shrink as this new wave of super-low-weight products takes over more and more of the total smokeless market.¹⁴

Because of all of these problems, shifting to a weight-based tax for smokeless tobacco or moist snuff is a problematic way to address UST's core complaint about smokeless brands with bargain-basement prices paying extremely low taxes per can or dose. To ensure that smokeless tobacco brands that engage in unfair competition or predatory pricing still pay reasonable amounts of tax, a state could simply add a minimum tax onto its existing percentage-of-price tax system.¹⁵

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More information on increasing smokeless tobacco taxes is available at
http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/other_products/.

^{*} Even if a shift to a weight-based smokeless tax would initially bring in more revenue than a state's existing percentage-of-price tax, the value of the revenues it brings the state will erode over time due to inflation. In contrast, a percentage-of-price system will keep up with inflation, bringing the state more revenue as inflation and smokeless tobacco prices increase.

¹ See, e.g., The S.T.O.P. Guide (The Smokeless Tobacco Outreach and Prevention Guide): A Comprehensive Directory of Smokeless Tobacco Prevention and Cessation Resources, 1997; Hatsukami, D & Severson, H, "Oral Spit Tobacco: Addiction, Prevention and Treatment," *Nicotine and Tobacco Research* 1:21-44, 1999; See also, Campaign for Tobacco-Free Kids (TFK) Factsheet, *Smokeless Tobacco and Kids*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0003.pdf>.

² See, e.g., TFK Factsheets, *Health Harms from Smokeless Tobacco Use*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0319.pdf>, and *Smokeless Tobacco and Kids*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0003.pdf>.

³ Institute for Social Research, The University of Michigan, *Monitoring the Future*; CDC, "Smokeless Tobacco Facts," http://www.cdc.gov/tobacco/data_statistics/fact_sheets/smokeless/smokeless_facts/index.htm. Tomar, S, "Is use of smokeless tobacco a risk factor for cigarette smoking? The U.S. experience," *Nicotine & Tobacco Research* 5(4):561-569, August 2003.

⁴ Nelson, L, "If you think Snus is a safe alternative to smoking, think again," *Kansas City Star*, October 31, 2007.

⁵ Chaloupka, FJ, et al., "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2):503-516, 1997, http://tigger.uic.edu/~fjc/Presentations/Scans/Final_PDFs/sej1997.pdf.

⁶ Goebel, LJ, et al., *A Tax on Smokeless Tobacco Would Decrease Tobacco Use: Evidence from a West Virginia Survey in Grades 5, 8 and 11* [White Paper], 2001.

⁷ The independent Task Force on Community Preventive Services includes representatives from CDC, other government agencies, and academic researchers. Its work on tobacco issues has been published in the following: Hopkins, DP, et al., "Evidence reviews and recommendations on interventions to reduce tobacco use and exposure to environmental tobacco smoke: A summary of selected guidelines," *American Journal of Preventative Medicine (AJPM)* 20(2S): 67-87, 2001; Hopkins, DP, et al., "Reviews of evidence regarding interventions to reduce tobacco use and exposure to environmental tobacco smoke," *AJPM* 20(2S):16-66, 2001; Task Force on Community Preventive Services, "Recommendations regarding interventions to reduce tobacco use and exposure to environmental tobacco smoke," *AJPM* 20(2S):10-15, 2001.

⁸ Chaloupka, FJ & Warner, K, "Section 2.4: Econometric studies of the demand for other tobacco products," *Economics of Smoking*, 36-37, January 12, 1999, <http://tigger.uic.edu/~fjc/Presentations/Papers/handfinal.pdf>. U.S. Department of Health and Human Services (HHS), *Preventing Tobacco Use Among Young People: A Report to the Surgeon General*, 1994, http://www.cdc.gov/tobacco/data_statistics/sgr/1994/index.htm.

⁹ See, e.g., Chaloupka, FJ & Warner, K, "Section 2.4: Econometric studies of the demand for other tobacco products," *Economics of Smoking* 36-37, January 12, 1999; HHS, *Preventing Tobacco Use Among Young People: A Report to the Surgeon General*, 1994, http://www.cdc.gov/tobacco/data_statistics/sgr/sgr_1994/index.htm.

¹⁰ Henley, SJ, et al., "Tobacco-Related Disease Mortality Among Men Who Switched From Cigarettes to Spit Tobacco," *Tobacco Control* 16:22-28, February 2007.

¹¹ TFK Factsheet, *The Best Way to Tax Smokeless Tobacco is with a Percentage-of-Price Tax*, <http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf>. American Lung Association (ALA), *Taxation of Smokeless Tobacco: Percentage of Price vs. Net Weight*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0175.pdf>.

¹² Institute for Social Research, The University of Michigan, *Monitoring the Future*.

¹³ Substance Abuse and Mental Health Services Administration, *Results from the 2005 National Survey on Drug Use and Health: Detailed Tables*, Table 7.67B, <http://oas.samhsa.gov/NSDUH/2k5nsduh/tabs/Sect7peTabs58to67.pdf>.

Chaloupka, FJ, et al., "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2):503-516, 1997, http://tigger.uic.edu/~fjc/Presentations/Scans/Final_PDFs/sej1997.pdf. See also, TFK Factsheet, *The Best Way to Tax Smokeless Tobacco is with a Percentage-of-Price Tax*, <http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf>. American Lung Association (ALA), *Taxation of Smokeless Tobacco: Percentage of Price vs. Net Weight*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0175.pdf>.

¹⁴ TFK Factsheet, *The Best Way to Tax Smokeless Tobacco is with a Percentage-of-Price Tax*, <http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf>.

¹⁵ The Campaign for Tobacco-Free Kids has model legislative language, available upon request, to establish a minimum tax in existing state percentage-of-price tobacco tax systems – or to modify existing or proposed weight-based tax systems for smokeless or moist snuff so that (like a percentage-of-price system) they keep up with inflation and product price increases, do not fail to tax low-weight products adequately, and better protect the public health. To get any of this model legislative text, please email aboonn@tobaccofreekids.org.