



STATE BENEFITS FROM INCREASING SMOKELESS TOBACCO TAX RATES

Raising and equalizing tax rates across all tobacco products will reduce overall tobacco use, its harms, and costs, while generating revenue for states. States have been increasing their cigarette tax rates both to increase state revenues and to reduce smoking, especially among kids, while leaving behind taxes on other tobacco products (OTP). By neglecting to increase their smokeless and other non-cigarette tobacco taxes at the same time, these states miss 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 there are unique aspects about these products that require additional consideration for tax policy.

Smokeless Tobacco Products are Attractive to Kids, Cause Health Harms and Higher Health Care Costs

Smokeless tobacco products come in a wide variety of kid-friendly flavors such as grape, apple, and vanilla. Because they are taxed – and priced – lower than cigarettes, they are more affordable than cigarettes and can be more attractive to kids, who are more price-sensitive than adults. Smokeless tobacco products also include the newer snus products, small teabag-like pouches of tobacco that do not require spitting. 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.”¹

It is well established that smokeless tobacco use causes harm, including gum disease and substantially increased risk of oral cancer.² Smokeless use during youth can lead to a lifetime of addiction to nicotine.³ A recent study estimated excess health care costs due to smokeless tobacco use amounted to \$3.4 billion in the U.S.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. The 2012 Surgeon General’s Report, *Preventing Tobacco Use Among Youth and Young Adults*, found that increasing smokeless tax rates reduced youth smokeless use, stating, “Tobacco control policies, including higher taxes on smokeless tobacco...are effective in reducing the use of smokeless tobacco among adolescent males...”⁵ 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.⁶

Increasing Cigarette Taxes without Increasing Smokeless Tobacco Taxes Makes Smokeless More Appealing to Kids

The 2012 Surgeon General’s report concluded, “Clearly, making smokeless tobacco products available more cheaply could promote their use among price-sensitive youth. In addition, disparities in tobacco taxation (i.e., higher taxes for cigarettes than for smokeless tobacco) could result in a switch to smokeless tobacco among young males...”⁷

Because youth are more sensitive to price, having certain products sold at a cheaper price can make them more attractive to youth. 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

Raising state tax rates on all tobacco products will produce enormous benefits by reducing overall tobacco use, with an especially powerful negative effect on tobacco use by kids.

Setting Effective Smokeless Tobacco Tax Rates

A percentage-of-price tax is one of the simplest and most effective ways to tax smokeless tobacco. Even better, adding a minimum tax to a basic percentage-of-price tax could prevent products sold at low, predatory or anti-competitive prices from evading reasonable taxation.

One way to create comparable tax rates is to make sure that the cigarette, smokeless tobacco, and other tobacco product taxes (or the proposed increased rates) all roughly equal the same percentage of the underlying prices for the products. While cigarette taxes are typically set as a per-pack rate, smokeless and other non-cigarette tobacco-product taxes are already set at a percentage of manufacturer or wholesale prices in many states. Per-pack cigarette tax rates can be translated into percentages of the prices charged by manufacturers using manufacturer price data to determine the parallel tax rate for smokeless tobacco and other tobacco products.¹⁰

Percentage of Price vs. Weight-Based Taxes. Altria and its subsidiary, U.S. Smokeless Tobacco Company (UST), continue to push states to tax smokeless tobacco (specifically, moist snuff products) based on weight rather than through a percentage of price because they have lost market share to their lower-priced competitors that pay less in tax under a percentage-of-price system. However, a weight-based tax system disregards the price of the product – which eliminates UST’s competitors’ tax advantage and can give UST’s products, sold with premium pricing, a tax break. Additional problems with weight-based taxes include:

- **A percentage-of-price tax is much fairer across products and brands than a simple weight-based tax.** Because it applies the same percentage across all the different types, brands, weights, and packages of smokeless products, a percentage-of-price tax ensures that the products that companies set at higher prices also pay higher amounts in tax, but still at the same percentage as cheaper brands. Indeed, a percentage-of-price tax is a flat tax.
- **Unlike a percentage-of-price tax, a simple weight-based tax will not keep up with inflation or companies’ product price increases.** As a result, the weight-based tax will erode over time, bringing the state increasingly lower revenues than with a percentage-of-price tax.
- **Unlike a percentage-of-price tax, a simple weight-based tax will grossly under-tax light-weight moist snuff products, which would reduce state revenues.** Products such as snus can weigh as little as one-tenth as much as standard moist snuff products, which means the tax paid on those products will be a small fraction of the tax paid on standard smokeless products.

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More information on increasing smokeless tobacco taxes is available at <https://www.tobaccofreekids.org/fact-sheets/tobacco-control-policies/taxes-on-other-tobacco-products>.

¹ Nelson, L, “If you think Snus is a safe alternative to smoking, think again,” *Kansas City Star*, October 31, 2007.

² See, e.g., Campaign for Tobacco-Free Kids (TFK) factsheets, *Health Harms from Smokeless Tobacco Use*, <https://www.tobaccofreekids.org/assets/factsheets/0319.pdf>, and *Smokeless Tobacco and Kids*, <https://www.tobaccofreekids.org/assets/factsheets/0003.pdf>.

³ TFK Factsheet, *Smokeless Tobacco and Kids*, <https://www.tobaccofreekids.org/assets/factsheets/0003.pdf>.

⁴ Wang, et al., “Healthcare Utilization and Expenditures Attributable to Smokeless Tobacco Use among US Adults,” *Nicotine & Tobacco Research*, ntx196, <https://doi.org/10.1093/ntr/ntx196>, September 2, 2017.

⁵ U.S. Department of Health and Human Services (HHS), *Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General*, 2012.

⁶ 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>.

⁷ HHS, *Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General*, 2012.

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>. 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 See TFK factsheet, *State Excise Tax Rates for Non-Cigarette Tobacco Products*,
<https://www.tobaccofreekids.org/assets/factsheets/0169.pdf>.