

Approved: 2-19-93
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Keith Roe at 9:00 a.m. on February 18, 1993 in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Bill Edds, Revisor of Statutes
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Representative Henry Helgersen
Chip Wheeler, Kansas Medical Society
Betty Dicus, American Cancer Society
Brian Gilpin, Tobacco Free Kansas Coalition
Tom Bell, Kansas Hospital Association
Frances Kastner, Kansas Food Dealers Association
Elizabeth Taylor, Kansas Tobacco-Candy Distributors & Vendors, Inc.
Alan Alderson, Tobacco Institute
Bill Sneed, Smokeless Tobacco Council, Inc.
Ron Hein, R.J. Reynolds Tobacco USA

Others attending: See attached list

Chairperson Roe opened the hearing on HB 2224.

HB 2224 Tax on manufacture of tobacco to fund programs for prevention and treatment of tobacco-related diseases.

Representative Henry Helgersen testified in support of HB 2224, stating that raising cigarette taxes will not only reduce cigarette consumption, which benefits both individuals and public health, but it also is an excellent source of revenue for Kansas and will raise about \$22 million in fiscal year 1994. Included in his testimony was information on cigarette tax rates in other states (Attachment 1).

Chip Wheelen, Kansas Medical Society, testified that the Society generally supports HB 2224, but would like to suggest that the revenue derived from the new tax be invested in the existing state Medical Assistance Program rather than the expenditure categories outlined in the bill (Attachment 2).

Betty Dicus, American Cancer Society, testified in support of HB 2224. Ms. Dicus said that now is the time to approve a health tax on tobacco products for multiple reasons - the health of Kansas citizens is at stake; the potential for additional state revenue exists; and a tobacco tax is one of the few taxes that is supported by the public (Attachment 3).

Brian Gilpin, Tobacco Free Kansas, testified in support of HB 2224, stating that this tax provides a unique opportunity for government to save lives and simultaneously raise substantial revenues to ease the burden of health care costs (Attachment 4).

Tom Bell, Kansas Hospital Association, testified in support of HB 2224. He said that the revenue from the tax would be used for: (1) programs for prevention and reduction in tobacco use; (2) programs for health education; (3) development of a state strategic health plan; and (4) indigent care (Attachment 5).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 18, 1993.

Frances Kastner, Kansas Food Dealers Association, testified in opposition to HB 2224, stating that the next tax could be on candy bars because they are harmful to diabetics; or against every bag of potato chips because a high salt content might be harmful to those with high blood pressure (Attachment 6).

Elizabeth Taylor, Kansas Tobacco-Candy Distributors & Vendors, Inc., testified in opposition to HB 2224. She said that the end result of this taxation is to deliver additional business oppostunities away from Kansas and into other states (Attachment 7).

Alan Alderson, Tobacco Institute, testified in opposition to HB 2224, stating that the administration of an entirely new tax under a new law would be a nightmare. Mr. Alderson also said that earmarking tobacco product taxes is not only an unfair tax policy but is unreliable (Attachment 8).

Bill Sneed, Smokeless Tobacco Council, Inc., testified in opposition to HB 2224, stating that the Council believes such a proposed tax would be an extraordinarily heavy and punitive levy (Attachment 9).

Ron Hein, R.J. Reynolds Tobacco, testified in opposition to HB 2224. He said that this is not a tax increase on tobacco and this is not a tax increase on tobacco companies but is a general tax increase on citizens in this state (Attachment 10).

A memorandum from the Division of Budget was distributed which showed the revised fiscal impact for HB 2224 (Attachment 11).

Chairperson Roe closed the hearing on HB 2224.

The Chair directed the Committee to turn to HB 2266 - Tax foreclosure sales of abandoned buildings.

A motion was made by Representative Adkins, seconded by Representative Pottorff, to report HB 2266 favorably. The motion carried.

The Chair directed the Committee to turn to HB 2088 - Taxation of recreational vehicles.

A motion was made by Representative Glasscock, seconded by Representative Lahti to amend HB 2088 to add language regarding the weight to be used when a recreational vehicle is registered. The motion carried.

A motion was made by Representative Glasscock, seconded by Representative Wagle, to amend HB 2088 to add the amnesty provision for calendar year 1994. The motion carried.

A motion was made by Representative Empson, seconded by Representative Adkins to pass HB 2088 favorable as amended. The motion carried.

The meeting adjourned at 10:28 a.m.

The next meeting is scheduled for February 19, 1993.

Date: 2/18/93

GUEST REGISTER

HOUSE COMMITTEE ON
ASSESSMENT AND TAXATION

[illegible]

HENRY M. HELGERSON, JR.
REPRESENTATIVE, EIGHTY-SIXTH DISTRICT
4009 HAMMOND DRIVE
WICHITA, KANSAS 67218-1221

ROOM 281-W
CAPITOL
TOPEKA, KANSAS 66612



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
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INSURANCE
LEGISLATIVE POST AUDIT
JOINT COMMITTEE ON
HEALTH CARE
LEGISLATIVE BUDGET
COMMITTEE

HB 2224

February 18, 1993

Testimony Before the
House Taxation Committee

by

Representative Henry Helgerson, Jr.

Mr. Chairman and members of the Committee:

Thank you for the opportunity to testify before you on House Bill 2224, which increases the excise tax on cigarettes and other tobacco products. This bill also directs the monies generated by the tax into the Tobacco-related disease health protection fund for distribution to programs that benefit the health care system in Kansas.

Today, it is widely accepted in the medical community and the general public that smoking is hazardous to a person's health. It contributes to the development of cancer, heart disease, peptic ulcer disease, and acute and chronic lung problems. More than one of every six deaths is attributable to smoking. Annually, an estimated 450,000 Americans died as a result of smoking. These deaths and illnesses

2/18/93
House Taxation Cmte
Attachment 1

resulted in \$69 billion in health care costs and lost productivity in the United States. Of these deaths, an estimated 3,888 Kansans died due to smoking related illnesses. In addition, smoking prolongs the recovery period from both smoking related illnesses as well as unrelated health problems. Of the State employee population, smokers incur 33% more hospital admissions and average 41% more hospital days than smokers. In 1991, smoking-attributable illness cost Kansans \$594 million.

With the newly released EPA report classifying second hand smoke as a Class A carcinogen similar to asbestos and radon, there is additional justification to further discourage tobacco use.

It is the position of the Tobacco Free Kansas Coalition that it is contrary to good public policy, good health and fiscal responsibility to condone smoking and that we should develop policies that discourage tobacco usage.

Raising cigarette taxes will not only reduce cigarette consumption, which benefits both individuals and public health, but it also is an excellent source of revenue for Kansas. It has been shown that for every 10% increase in price on a package of cigarettes there is a consumption reduction of approximately 4%. This argument alone shows validation for raising the price on tobacco products.

Unfortunately, many still argue against taxing these products. The tobacco industry argues that the tax would burden the poor and would restrict the freedom on current smokers. These arguments fall short when you consider the fact that the tobacco industry itself regularly raises the prices on their products, as often as twice a year, without regard for these same concerns.

It has been shown that increasing cigarette taxes will help encourage some adults to stop smoking. The heaviest impact, though, would be on young people, who due to limited spending money are more sensitive to price changes. In this group the tax will act as a deterrent to those already smoking, thus decreasing addiction rates, and will prevent many from even starting.

This cigarette tax will raise approximately \$20-25 million in fiscal year 1994. This money will be a welcome help in Kansas' Health Care System. Current health care costs related directly and indirectly to smoking in Kansas run about \$600 million a year. The cigarette tax will allow us to recover some of these considerable expenses while funding programs aimed at shrinking the size of the current smoking population through education of the health risks caused by use of tobacco products.

You may wonder how logical it is to establish a fund that uses its

monies to shrink the population of the group being taxed to maintain it. This, though, is just what the tax is ideally created to do. As the smoking population decreases so does the smount of medical costs incurred by the smokers. Thus, there is a declining need for the tax money to be generated. This parellel between money raised and money needed makes sound economic sense.

No matter how sound these arguments for the cigarette tax are to our financial and health care concious Legislature there are some who will still say this tax is unfair to smokers. I believe that we must in this situation listen to the 75-80% of our constituents whom polls show support cigarette tax increases. These constituents obviously feel that if smokers must expose the public to Class A carcinogens then these same smokers must help pay for the substantial medical costs incurred by this exposure.

In closing, I would like to give an example of a program similar to the one proposed in this bill which is currently in place. In 1988 the state of California undertook a strong campaign to reduce its smoking population. It raised the taxes on tobacco products and created a fund to promote education of smoke related health hazards, reduce its number of

current smoker and potential smokers and pay for some of the health care costs that smoking causes. In three years time the number of smokers in California dropped by 17 percent. If you feel similar results would be beneficial in Kansas then I urge you to support House Bill 2224.

RAISING TOBACCO TAXES IS GOOD HEALTH AND FISCAL POLICY

INTRODUCTION

Raising cigarette taxes not only reduces cigarette consumption which benefits both individuals and the public health, but it also is an excellent source of revenue for financially strapped governments. With the economy stagnating and the tobacco-related death and disease toll rising, now is an opportune time for concerned advocates to urge their state and (where applicable) local governments to increase cigarette and other tobacco taxes.

Significantly, approximately 75-80% of the general public supports cigarette tax increases in every major survey conducted in recent years, including one by the renowned Gallup organization. Thus, it is not surprising that 12 states--including North Carolina--raised their cigarette tax in 1991 and 7 states have done so in 1992. Similar to California in 1989, Massachusetts raised the tax through a ballot referendum in 1992, while the other states used the legislative process.

DECREASE CIGARETTE CONSUMPTION

Increasing cigarette taxes decreases cigarette consumption benefiting not only smokers who quit, but also children who never start and innocent bystanders who won't have to breathe as much environmental tobacco smoke. Studies have shown that for every 10% increase in the price of cigarettes, consumption falls about 4%.

PREVENT CHILDREN FROM SMOKING

While increasing cigarette taxes will help to encourage some adults to stop smoking, young people are even more likely to be affected as they are particularly sensitive to price changes because they generally have only limited amount of money to spend. In fact, a General Accounting Office (G.A.O.) report concluded that raising the Federal excise tax could have a considerable impact on teenage smoking. Some would be prevented from even starting and others would be compelled to stop before they become addicted.

RECOVER HEALTH AND PRODUCTIVITY COSTS

In 1985, the Office of Technology Assessment estimated that cigarette smoking costs our economy \$65 billion annually in health care and lost productivity costs. This amounts to \$2.17 per pack in lost productivity and smoking related health care costs. With inflation, the amount would be much higher today.

BENEFIT THE POOR

The tobacco industry consistently argues that tobacco taxes are regressive, meaning that they would place an undue burden on the poor. That is so hypocritical. The tobacco

industry regularly raises cigarette prices twice a year in total disregard for the undue burden this places on the poor. Retail sales prices have increased dramatically more than tobacco taxes. As the following chart shows, the percentage of the retail price attributable to taxes have fallen from almost 50% in 1955 to less than 25% in 1990.

AVOID SMUGGLING

Another favorite tobacco industry argument is that higher taxes in one state will cause smuggling from a lower tax state. First of all the cost differential as well as the expense and inconvenience of travelling out-of-state have to be significant enough to cause someone to undertake clandestine activity. That simply doesn't happen in most cases.

Where it might present a problem, governments can take preventive measures. Just as with the illegal sales to minors, governments can increase enforcement efforts and impose higher penalties for smuggling activities. Additionally, officials from neighboring jurisdictions can decide to cooperate and both raise tobacco taxes rather than allowing the tobacco industry to play them off against each other and deprive both jurisdictions of needed revenue.

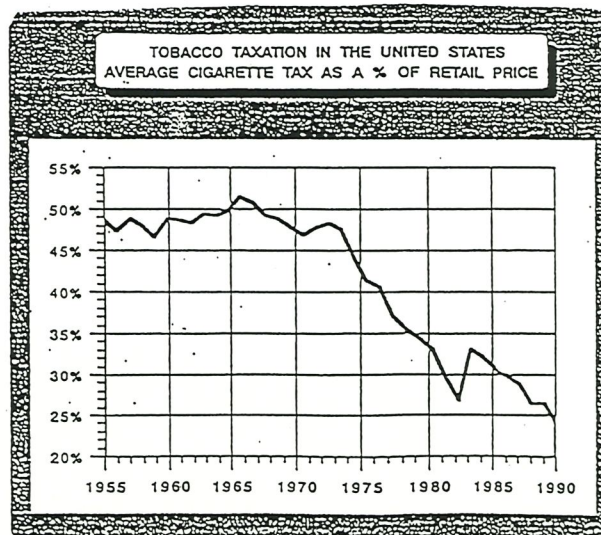
TOBACCO INDUSTRY FEARS

With so many advantages and very few significant disadvantages to raising tobacco taxes, the tobacco industry has good reason to fear additional tobacco tax increases in the near future. Reports received by ASH indicate that higher tobacco taxes are one of the tobacco companies biggest concerns - along with ETS and advertising restrictions.

From: Action on Smoking and Health, 2013 H St., N.W., Washington D.C. 20006
(202) 659-4310

H612 -- Cigarette Excise Taxes November 5, 1992

LEGAL ACTION AND EDUCATION ON THE HAZARDS OF SMOKING * PROTECTING THE RIGHTS OF THE NONSMOKING MAJORITY



Source: Non-Smokers' Rights Association, Canada

1-7



ACTION ON SMOKING AND HEALTH

2013 H St., N.W. • Washington D.C. 20006 • (202) 659-4310

STATE CIGARETTE EXCISE TAX RATES Cents-per-20-pack as of November 4, 1992

| | | | |
|-------------------|----------|----------------|--------|
| MASSACHUSETTS | 51(26)* | DELAWARE | 24 |
| DIST. OF COLUMBIA | 50(30) | KANSAS | 24 |
| MINNESOTA | 48(43) | OKLAHOMA | 23 |
| HAWAII | 47(46)** | SOUTH DAKOTA | 23 |
| CONNECTICUT | 45 | ARKANSAS | 22 |
| TEXAS | 41 | COLORADO | 20 |
| NEW JERSEY | 40 | LOUISIANA | 20 |
| NEW YORK | 39 | VERMONT | 20(19) |
| WISCONSIN | 38(30) | ARIZONA | 18 |
| MAINE | 37 | IDAHO | 18 |
| RHODE ISLAND | 37 | MISSISSIPPI | 18 |
| IOWA | 36 | MONTANA | 18 |
| MARYLAND | 36(16) | OHIO | 18 |
| CALIFORNIA | 35 | WEST VIRGINIA | 17 |
| NEVADA | 35 | ALABAMA | 16.5 |
| WASHINGTON | 34 | INDIANA | 15.5 |
| FLORIDA | 33.9 | NEW MEXICO | 15 |
| PENNSYLVANIA | 31 | MISSOURI | 13 |
| ILLINOIS | 30 | TENNESSEE | 13 |
| ALASKA | 29 | GEORGIA | 12 |
| NORTH DAKOTA | 29 | WYOMING | 12 |
| OREGON | 28 | SOUTH CAROLINA | 7 |
| NEBRASKA | 27 | NORTH CAROLINA | 5 |
| UTAH | 26.5 | KENTUCKY | 3 |
| MICHIGAN | 25 | VIRGINIA | 2.5 |
| NEW HAMPSHIRE | 25 | | |

*Figures in parentheses are 1991 excise tax rates

CIGARETTE PRICE INCREASES

Tobacco Companies Burn Smokers

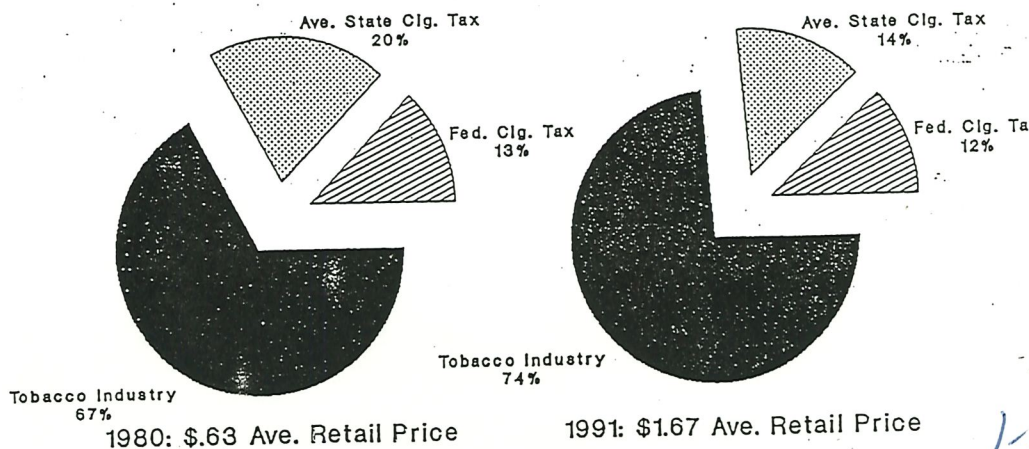


Table of Rates

¶ 55-100

The following are rates of state cigarette taxes per pack of 20 cigarettes exclusive of any local taxes. For details, see the following state summaries.

| State | Rate | State | Rate |
|----------------------|---|----------------|--------------------|
| Alabama | 16.5 ¢ | Montana | 18 ¢ ¹³ |
| Alaska | 29 ¢ | Nebraska | 27 ¢ |
| Arizona | 18 ¢ | Nevada | 35 ¢ |
| Arkansas | 22 ¢ | New Hampshire | 25 ¢ |
| California | 35 ¢ | New Jersey | 40 ¢ |
| Colorado | 20 ¢ | New Mexico | 15 ¢ |
| Connecticut | 45 ¢ | New York | 39 ¢ |
| Delaware | 24 ¢ | North Carolina | 5 ¢ |
| District of Columbia | 50 ¢ | North Dakota | 29 ¢ |
| Florida | 33.9 ¢ | Ohio | 18 ¢ |
| Georgia | 12 ¢ | Oklahoma | 23 ¢ |
| Hawaii | 40% ³ | Oregon | 28 ¢ |
| Idaho | 18 ¢ | Pennsylvania | 31 ¢ |
| Illinois | 30 ¢ | Rhode Island | 37 ¢ |
| Indiana | 15.5 ¢ | South Carolina | 7 ¢ |
| Iowa | 36 ¢ | South Dakota | 23 ¢ |
| Kansas | 24 ¢ | Tennessee | 13 ¢ ¹⁷ |
| Kentucky | 3 ¢ ⁴ | Texas | 41 ¢ |
| Louisiana | 20 ¢ | Utah | 23 ¢ ¹⁹ |
| Maine | 37 ¢ | Vermont | 20 ¢ |
| Maryland | 36 ¢ | Virginia | 2.5 ¢ |
| Massachusetts | 26 ¢ ⁸ 51 ¢ effective 1-1-93 | Washington | 34 ¢ ²¹ |
| Michigan | 25 ¢ | West Virginia | 17 ¢ |
| Minnesota | 48 ¢ | Wisconsin | 38 ¢ ²³ |
| Mississippi | 18 ¢ ¹⁰ | Wyoming | 12 ¢ |
| Missouri | 13 ¢ | | |

[The next page is 5521.]

³ Hawaii: 40% of wholesale price.

⁴ Kentucky: Plus a \$.001 enforcement tax on each package of cigarettes.

⁸ Massachusetts: The tax rate is increased by any amount by which the federal excise tax on cigarettes is less than 8 mills. **51 ¢ effective 1-1-93**.

¹⁰ Mississippi: If the federal cigarette tax is reduced, the state rate will be increased by the amount of the federal tax reduction.

¹³ Montana: Tax increased to 19.26¢ per pack through August 13, 1993.

¹⁷ Tennessee: An additional 0.05¢ per pack fee is imposed on dealers or distributors.

¹⁹ Utah: The tax rate will be increased by the same amount as any amount of reduction in the federal excise tax on cigarettes.

²¹ Washington: Tax reduced to 31¢ per pack on July 1, 1995.

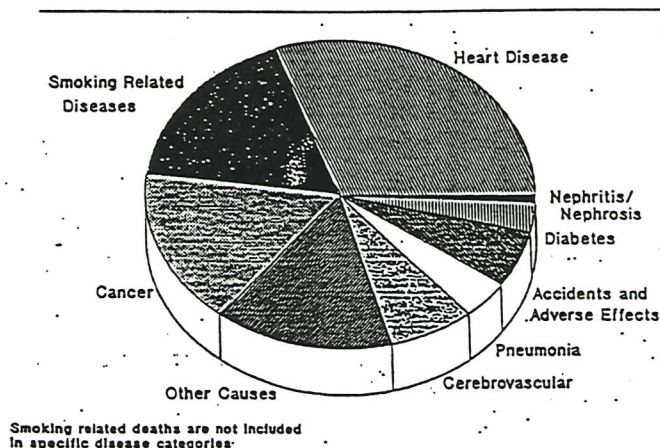
²³ Wisconsin: An additional tax of 16¢ per pack of 20 cigarettes is imposed minus the federal cigarette tax.

By combining the smoking-attributable direct costs and the indirect costs, we can estimate the total smoking-attributable costs to our Kansas economy, \$594 million for 1991.

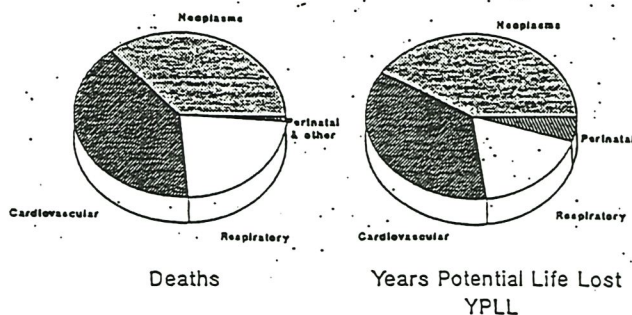
\$594 million equals

\$237.00 per Kansan or
 \$2042.00 per smoker or
 \$ 2.68 per pack of cigarettes sold

LEADING CAUSES OF DEATH KANSAS, 1991



SMOKING RELATED DEATHS AND YPLL BY CAUSE KANSAS, 1991



Unpublished Data, KDHE

Contact: Kansas Department of Health and Environment
 Office of Chronic Disease and Health Promotion
 Julia Francisco, Coordinator
 Cancer Control Program

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Office on Smoking & Health

Public Information Branch (Mail Stop K-50)

National Center for Chronic Disease

Prevention & Health Promotion

4770 Buford Highway, N.E.

Atlanta, GA. 30341-3724

Phone # (404)488-5705

Fax # (404)488-5939

Facts About Secondhand Smoke

Some of the key facts about secondhand tobacco smoke and its dangers are summarized below. Use them to inform your family and friends and to work for smoke-free policies in your community.

General

Secondhand smoke is a cause of disease, including lung cancer, in healthy nonsmokers. Each year secondhand smoke kills an estimated 3,000 adult nonsmokers from lung cancer.

Secondhand smoke causes 30 times as many lung cancer deaths as all regulated air pollutants combined.

Secondhand smoke causes other respiratory problems in nonsmoking adults: coughing, phlegm, chest discomfort, and reduced lung function.

For many people, secondhand smoke causes reddening, itching, and watering of the eyes. About eight out of 10 nonsmokers report they are annoyed by others' cigarette smoke.

More than 4,000 chemical compounds have been identified in tobacco smoke. Of these, at least 43 are known to cause cancer in humans or animals.

At high exposure levels, nicotine is a potent and potentially lethal poison. Secondhand smoke is the only source of nicotine in the air.

Nonsmokers exposed to cigarette smoke have in their body fluids significant amounts of nicotine, carbon monoxide, and other evidence of passive smoking.

Three out of four nonsmokers have lived with smokers, and nearly half (45 percent) are worried that secondhand smoke might cause them serious health problems.

More than 90 percent of Americans favor restricting or banning smoking in public places.

46 states and the District of Columbia in some manner restrict smoking in public places. These laws range from limited prohibitions, such as no smoking on school buses, to comprehensive clean indoor air laws that limit or ban smoking in virtually all public places.

Laws restricting smoking in public places have been implemented with few problems and at little cost to state and local government.

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Smoking policies may have multiple benefits. Besides reducing exposure to secondhand smoke, such policies may alter smoking behavior and public attitudes about tobacco use. Over time, these changes may contribute to a significant reduction in U.S. smoking rates.

Children

Each year, exposure to secondhand smoke causes 150,000 to 300,000 lower respiratory tract infections (such as pneumonia and bronchitis) in U.S. infants and children younger than 18 months of age. These infections result in 7,500 to 15,000 hospitalizations yearly.

Chronic cough, wheezing, and phlegm are more frequent in children whose parents smoke.

Children exposed to secondhand smoke at home are more likely to have middle-ear disease and reduced lung function.

Secondhand smoke increases the number of asthma attacks and the severity of asthma in about 20 percent of this country's 2 million to 5 million asthmatic children.

Each year, U.S. mothers who smoke at least 10 cigarettes a day can actually cause between 8,000 and 26,000 new cases of asthma among their children.

A recent study found that infants are three times more likely to die from Sudden Infant Death Syndrome (SIDS) if their mothers smoke during and after pregnancy. Infants are twice as likely to die from SIDS if their mothers stop during pregnancy and then resume following birth.

Workplace

Workers exposed to secondhand smoke on the job are 34 percent more likely to get lung cancer.

The simple separation of smokers from nonsmokers within the same airspace may reduce, but cannot eliminate, the exposure of nonsmokers to secondhand smoke.

There is no safe level of exposure to a cancer-causing substance.

Survey responses indicate that at least 4.5 million American workers experience great discomfort from exposure to secondhand smoke.

The best method for controlling worker exposure to secondhand smoke is to eliminate tobacco use from the workplace and implement a smoking cessation program to support smokers who decide to quit.

About 85 percent of businesses had adopted some form of smoking policies in 1991, up from 36 percent in 1986.

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Department of Health and Environment

Robert C. Harder, Secretary

Reply to:

The Costs of Smoking in Kansas Life, Health, and Dollars

Cigarette smoking is the number one preventable cause of death and disability in the United States according to overwhelming amounts of scientific research. In this time of concern over rising health care costs and limited funds, it is unfortunate that 29 percent of Americans continue to smoke cigarettes (Healthy People 2000). More than one of every six deaths is attributed to smoking. In 1988, an estimated 434,000 Americans died as a result of smoking. These deaths and illnesses resulted in \$69 billion in health care costs and lost productivity in the United States.

Kansans, like many Americans, continue to smoke despite the overwhelming evidence of the tremendous costs both to our well-being and our pocketbooks. The 1990 Census Bureau estimates indicate that 30.7 percent of Kansas men between the ages of 35 and 64, and 18.7 percent of Kansas women in the same age group were current smokers (SAMMEC 2.1). Overall, almost 1 out of every 4 Kansans between the ages of 35 and 64 smoke cigarettes.

In addition, our youth are beginning to smoke at alarming rates. Over 65% of Kansas youths age under 18 years old indicated they had smoked cigarettes within the previous 30 days (Youth Behavioral Risk Survey). Based on national averages, it is estimated that as many as 30 young people in Kansas begin smoking everyday. This would amount to a total of 210 per week; almost 11,000 young Kansans each year.

SMOKING ATTRIBUTABLE DEATHS

In 1991, an estimated 3,888 Kansans died due to smoking related illnesses. This represents 18 percent of all deaths reported that year, making cigarette smoking the second leading cause of death, behind non-smoking related heart disease.

FINANCIAL COSTS DUE TO SMOKING

Direct costs of smoking are determined by expenditures for the prevention, diagnosis, and treatment of smoking-related diseases and medical conditions. In 1991, \$186 million was spent for direct costs of smoking-related illnesses. By far the greatest amount (68%) of the costs were hospital costs.

Indirect costs include lost productivity as a result of smoking-related morbidity and mortality. Indirect costs are measured by lost income. Smoking attributable indirect mortality costs for Kansans aged 35-85 are estimated at \$347 million. Indirect morbidity costs totals \$61 million.

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KANSAS MEDICAL SOCIETY

623 SW 10th Ave. • Topeka, Kansas 66612 • (913) 235-2383
WATS 800-332-0156 FAX 913-235-5114

February 18, 1993

TO: House Taxation Committee

FROM: Chip Wheelen
KMS Director of Public Affairs

SUBJECT: House Bill 2224 as Introduced

A handwritten signature in cursive script, reading 'Chip Wheelen'.

The Kansas Medical Society generally supports legislation which imposes higher taxes on cigarettes and other tobacco products for a simple reason; the higher cost of such products discourages consumption. Our position is based upon the many studies that have conclusively determined that consumption of tobacco products causes morbidity. Perhaps the relationship between consumption of tobacco products and the ensuing development of cancer and cardiovascular disease is the most compelling reason as to why consumers of such products should pay significant taxes that are dedicated to expenditures for health care services.

We do, however, wish to suggest that perhaps the revenue derived from the new tax in HB 2224 could be invested in the existing state Medical Assistance Program rather than the expenditure categories outlined in the bill. If the new 10¢ per pack tax were credited to a special revenue fund dedicated to the Medical Assistance Program, we could leverage federal financial participation that would generate almost \$1.50 for each dollar of state money spent on Medicaid.

We respectfully request that you consider our suggested amendment prior to favorable action on HB 2224. Thank you for your consideration.

CW:cb

2/18/93
House Taxation Committee
Attachment 2



KANSAS DIVISION, INC.

THERE'S NOTHING MIGHTIER THAN THE SWORD

TESTIMONY OF BETTY DICUS, TOPEKA
CHAIRMAN OF THE BOARD
AMERICAN CANCER SOCIETY, KANSAS DIVISION, INC.

HOUSE TAXATION COMMITTEE
FEBRUARY 18, 1993
HOUSE BILL 2224

Mister Chairman and Members of the Committee:

My name is Betty Dicus and I currently serve as Chairman of the Board of Directors for the American Cancer Society, Kansas Division, Inc. We thank you for the opportunity to appear before you in support of House Bill 2224.

The use of tobacco is the single largest cause of preventable death in this country. It is the only legal product which kills its users when used in exactly the way its manufacturers intend it to be used. It has no safe level of consumption. It is highly addictive and virtually all new users are children.

The rationale for increasing tobacco taxes is very simple -- it will save lives. It is estimated that for every ten percent increase in tax, there will be a four percent decrease in the number of current smokers. Tobacco taxes will bring in revenue, and as people stop smoking, health care costs will decline.

Increasing taxes of any kind is seldom a popular action to take. However, a December 1992 national poll by Louis Harris and Associates found that 76 percent of voters support higher cigarette and liquor taxes to pay for health care reform. The strong support for higher tobacco taxes has stood firm in the face of aggressive media campaigns by the tobacco industry. Voters in California, and more recently in Massachusetts, have approved increased cigarette taxes by significant margins, despite media efforts by the tobacco industry, which outspent health groups by more than 13 to 1.

2/18/93

House Taxation Committee

Of particular concern in this issue is the rate at which young people are beginning to smoke. Approximately 3,000 teenagers begin each day. Despite public health programs aimed at reducing teenage smoking and despite the fact that it is illegal to sell cigarettes to children, the smoking initiation rate remains high and the age at which they begin smoking continues to fall. This is no accident, as cigarette companies spend nearly \$4 billion on youth-oriented advertising and gimmicks designed to promote and reinforce the image of smoking as youthful and sophisticated.

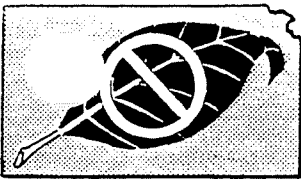
Teenagers are at least as, and perhaps even more responsive to changes in prices. This is significant in that an increased tax will provide the desired effect from a public health perspective – it will discourage young people from starting and encourage current smokers to quit.

Kansas currently ranks 27th in the country with its cigarette tax of 24 cents per pack. We do not even meet the national average tax, which is 26 cents per pack.

Now is the time to approve a health tax on tobacco products for multiple reasons – the health of Kansas citizens, particularly children, is at stake; the potential for additional state revenue exists; and a tobacco tax is one of the few taxes that is supported by the public.

We request your favorable consideration of House Bill 2224.

Thank you.



Tobacco Free Kansas

900 SW Jackson, Room 1051, Topeka, KS 66612-1290

913/296-1200

FAX 913/296-1231

Coalition Members

American Cancer Society

American Heart Association
Kansas Affiliate, Inc.

American Lung Association
of Kansas

Cancer Information Service

Dickinson County Council on
Alcohol and Drugs, Inc.

Extension Human
Development and Family
Studies, Kansas State
University

Group to Alleviate
Smoking Pollution

Kansas Academy of
Family Physicians

Kansas Association of Local
Health Departments

Kansas Dental Association

Kansas Department
of Administration

Kansas Department of Health
and Environment

Kansas Department of
Human Resources

Kansas Employer Coalition
on Health

Kansas Respiratory
Care Society

Kansas State Board
of Education

Kansas State Nurses
Association

Kansans for
Non-smoker's Rights

National Council on Alcoholism

New Mondays Seminars

Preventative Cardiology, PA

Project Freedom

Smoky Hill Family Practice
Residency Program

Stormont-Vail Regional
Medical Center

Topeka-Shawnee County
Health Department

University of Kansas
Medical Center

TESTIMONY IN SUPPORT OF HB 2224 2-18-93

HEALTH TAX: FIRST STEP TOWARDS HEALTH CARE REFORM

It has been nearly thirty years since the Surgeon General of the United States first warned the nation of the dangers of cigarette smoking. Yet many people remain addicted and smoking is still the number one cause of preventable death. Smoking now kills more Americans each year than alcohol, heroin, crack, automobile and airplane accidents, homicides, suicides, and AIDS combined. Each year tobacco use kills 434,000 Americans.

This health tax provides a unique opportunity for government to save lives and simultaneously raise substantial revenues to ease the burden of health care costs. This health tax would partially compensate for the tremendous cost smoking imposes on the economy. These costs are estimated at more than \$65 billion per year, or about \$2.20 per pack. The smoking-attributable costs in Kansas in 1991 was \$594 million.

The health benefits of a health tax on tobacco products is not theoretical, it is proven. Canada provides the clearest example. Combined federal and provincial cigarette taxes there were raised from an average of 46 cents per pack in 1980 to an average of \$3.27 per pack in 1991. US cigarette excise taxes, in contrast, have not even kept pace with inflation. Teen smoking in Canada has been reduced by approximately two-thirds since 1980 and total cigarette consumption is falling faster than any major industrialized nation in the world. In fact, the rate of decline is more than twice that of the United States.

The tobacco companies spend nearly \$4 billion each year on youth-oriented advertising designed to promote smoking as sophisticated and sexy. The tobacco companies continue to reap huge profits from sales of tobacco. They continue to tell the public that smoking is not harmful. It's time to put an end to the lies. Please vote for House Bill 2224.

A note on regressivity:

While all excise and sales taxes are, by definition, regressive, the disease and disability brought on by tobacco use are far more regressive to its victims and to our state and national economy.

2/18/93

House Taxation Cmte
Attachment 4



Memorandum

Donald A. Wilson
President

February 17, 1993

TO: House Taxation Committee
FROM: Kansas Hospital Association
RE: **HOUSE BILL 2224**

The Kansas Hospital Association appreciates the opportunity to comment regarding the provisions of HB 2224. We support this proposal.

HB 2224 would place a tax on tobacco products for the purpose of the following: (1) programs for the prevention and reduction in the use of tobacco; (2) programs for health education and public information regarding tobacco and other health issues; (3) development of a state strategic health plan; and (4) indigent care.

Legislators have heard before the substantial costs for the use of tobacco-related products in our society. There is no need to repeat that information here. The issue that needs to be resolved is what to do about dealing with these costs. We think House Bill 2224 is one way to focus on solutions. Thank you for your consideration of our comments.

TLB / pc

2/18/93
House Taxation Cmte
Attachment 5



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

HOUSE TAX COMMITTEE

OPPOSING HB 2224

2/18/93

OFFICERS

PRESIDENT
SKIP KLEIER
Carbondale

1st VICE-PRESIDENT
MIKE BRAXMEYER
Atwood

2nd VICE-PRESIDENT
TREASURER
DUANE CROSIER
Seneca

ASST. TREASURER
JOHN CUNNINGHAM
Shawnee Mission

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Parsons

LEROY WARREN
Colby

BILL WEST
Abilene

DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association. Our membership includes manufacturers, distributors and retailers of food products throughout Kansas.

Part of the INTENT of HB 2224 is difficult to disagree with, i.e., prevention of diseases. However, we must protest ANY TAXATION of a specific product to cover medical costs and health services for specified diseases or conditions perceived to be attributable to any one product. No one can be expected to reasonably estimate the cost or clear-cut determination of cause and prevention of tobacco-related diseases. We see passage of HB 2224 setting a dangerous precedent.

If bills like HB 2224 are passed, then in future years we can expect to see more taxes being assessed against more items which are deemed by this body to be harmful to people. The next tax could be on candy bars, because they are harmful to those who are diabetic; or against every bag of potato chips because a high salt content might be harmful to those with high blood pressure; and the list goes on and on.

It is especially distressing to us to see the proliferation of bills ear-marking a specific tax on products, occupations, earnings or whatever. Each one of these "special taxes" further depletes the legislatures ability to increase taxes for general purposes.

The words FEE and TAX is synonymous to us, and as we have followed the legislative process the past few years, we see more and more FEES being used for the purpose of funding state governmental responsibilities. If this trend continues we predict that by the end of the century Kansans will see their tax dollars going only for operation of state agencies, paying state employees salaries and benefits, and school finance.

We appreciate the opportunity to share our concern with you, and respectfully request you DO NOT RECOMMEND HB 2224 favorably for passage, in the present form.

Frances Kastner
Frances Kastner, Director
Governmental Affairs, KFPA

2/18/93
House Taxation Anti
Attachment 6



Kansas Tobacco-Candy Distributors & Vendors, Inc.

Elizabeth E. Taylor - Executive Director

February 18, 1993

President

TOM GUTHRIE (06-94)
Kansas City, Kansas

TESTIMONY IN OPPOSITION TO HB 2224

Vice President

FRANK ROTH (06-94)
Salina, Kansas

HOUSE TAXATION COMMITTEE

Secretary

DAVID GREENE (06-93)
El Dorado, Kansas

presented by

Elizabeth E. Taylor, Executive Director

Treasurer

RONALD OSWALD (06-93)
Lawrence, Kansas

Thank you Mr. Chairman for allowing the Kansas Tobacco & Candy Distributors & Vendors to present our opposition of HB 2224. Our organization represents small business owners, primarily family owned and operated, across Kansas. Most of our companies distribute tobacco and candy products as well as groceries, juices, snacks, paper products, etc. Most of our families have owned their businesses for an average of 20 years.

Chairman of the Board of Directors

RONDA WASSENBERG (06-94)
Marysville, Kansas

Directors

DOYLE PEPPER (06-93)
Topeka, Kansas

Our opposition to HB 2224 stems primarily from the philosophy of selecting one legal product and taxing it over other legal products. The end result of this taxation is to deliver additional business opportunities away from Kansas and into other states. This method of taxation serves as a disincentive to do business in Kansas. Kansas distributors already have fierce competition with Nebraska, Tennessee, Arkansas, Missouri and Oklahoma on these very products.

GEORGE LAWRENCE (06-93)
Hutchinson, Kansas

BILL WESTERMAN (06-93)
Chanute, Kansas

DON RIPPLE (06-94)
Wichita, Kansas

Further, it is appalling to us that this Legislature, in a time so troubled by taxation questions, would even consider taxing one small group to benefit the needs of all. We agree that our health system and the families who are served by it are very important indeed. However, because this importance reaches all, we prefer seeing another method of taxation used. Perhaps, an appropriate method would be income taxation of which we would support an increase instead of taxing one product over another. Further, there seems to be a very real need to examine and modify those health care costs by looking at the charges actually my to the patients and to the health care payors by the health care system. Without a handle on these charges, no amount of increased taxation will suffice.

JOHN FRAZEE (06-94)
Paola, Kansas

JOE GREGORY (06-94)
Pittsburg, Kansas

Directors at Large
KENNETH HAGMAN
Pittsburg, Kansas

DAVE MINICH
Overland Park, Kansas

FRED STEVENS
Wichita, Kansas

GALE CYNOVA
Junction City, Kansas

JOE WESTERMAN
Iola, Kansas

In summary, we appreciate the opportunity to present our opposition of any taxation which singles out one particular legal product over another. We feel taxing a few users of one product in an effort to benefit many is an injustice to our Kansas business owners.

913-354-1605 (FAX 913-354-4247) 933 Kansas Avenue Topeka, KS 66612

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Attachment 7

ALDERSON, ALDERSON, MONTGOMERY & NEWBERY

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TELEPHONE:

(913) 232-0753

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(913) 232-1866

MEMORANDUM

OF COUNSEL

DANIEL B. BAILEY

TO : MEMBERS OF THE HOUSE TAXATION COMMITTEE

FROM : ALAN F. ALDERSON, LEGISLATIVE COUNSEL FOR THE
TOBACCO INSTITUTE

RE : HOUSE BILL NO. 2224

DATE : FEBRUARY 18, 1993

I am Alan Alderson, appearing on behalf of the Tobacco Institute, a national association of tobacco product manufacturers. The Tobacco Institute appears in opposition to House Bill No. 2224.

Our reading of House Bill No. 2224 indicates that a new tax in the amount of ten cents is being levied on the sale at retail of a pack of cigarettes, and a tax of 20% of the wholesale value would be levied on other tobacco products. The bill also appears to require all of the funds derived from this new tax to be credited to a health protection fund to be used for various purposes related to health care. Therefore, we believe it would be appropriate to describe this legislation as earmarking the proceeds of a cigarette tax for health care.

Traditionally, those who favor earmarking excise taxes imposed on smoking argue that illnesses that have been statistically associated with smoking cause a disproportionate drain on government-financed health programs. However, in fact, there is no reliable data on the health care costs of smoking, nor convincing evidence that smokers do not already pay their fair share. Earmarking advocates say that this tax on smokers would be, in effect, a "user fee." How can it be called a user fee? A true user-fee method for funding health care, based upon those who actually use the system, would cause blacks to pay more than whites and lower income groups to pay more than the wealthy. Is that how Kansas wants its tax policy to work?

Even if it were true that smokers did incur larger medical costs, why should they bear a disproportionate burden by paying an extra tax? Skiers, football players and the obese all voluntarily take risks. Ill health effects have been blamed on the consumption of dairy products, eggs, coffee, sugar and red meat. Imagine what would happen if the State imposed a health tax on every citizen who is not getting enough fiber, or who fails to exercise.

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Earmarking tobacco products taxes is not only an unfair tax policy, it is unwise tax policy. It is unreliable. Taxing a shrinking base is bound to cause money to be taken from other worthy programs in the long run or raise taxes originally earmarked to pay for the programs that the earmarking originally was intended to fund. The latest Department of Revenue statistics show a decrease in cigarette tax collections from \$60,000,000 in 1987 to \$53,000,000 in 1992. Attached to this prepared testimony is a copy of an article which appeared in the February, 1993, Council of State Governments journal, showing that an increase in cigarette taxes can actually cause a decrease in state revenues as personal income increases. It is a very inelastic revenue source which the author concludes is a "losing proposition" for states that must pay for rising health care costs.

The approximately 500,000 Kansas residents who smoke have already been hit hard by a barrage of tax increases, including an 8 cent federal tax increase in 1983, 13 cents in State tax increases since 1983, a 4 cent federal tax increase in 1991 and an additional 4 cent federal tax increase in 1993. Passage of this bill would result in a 39 cent per pack increase in the last 10 years.

The regressive impact of cigarette taxes is also especially harmful to minority groups and low income families. A recent survey showed that 17.3% of all Kansas households have an effective buying income of less than \$10,000 per year. Passage of this bill would require the average two-smoker family to pay more than \$100 per year in additional excise taxes. Among blacks, the smoking rate for those over age 18 is 33%, compared to 28.5% for whites. Blacks comprise 5% of Kansas households and, according to the 1980 census, 46% of black households in Kansas had incomes of less than \$10,000, compared to 28% for whites. The effect of this bill on low income blacks would be especially devastating.

Please also be aware that Kansas is in a vulnerable position with respect to cigarette taxes due to significant savings which would be available on most borders. A ten cent increase in the retail cost of a pack of cigarettes would leave a 21 cent per pack gap between the tax in Missouri and the tax in Kansas. There would be a savings of several hundred dollars per year for those who would purchase cigarettes in Missouri, and not in Kansas.

Finally, we believe the administration of an entirely new tax under a new law would be a nightmare. Will another level of bureaucracy be required to separately administer, collect and segregate this new excise tax?

For all of the reasons given herein, we would urge you to defeat House Bill No. 2224.

Taxes to grow with

The fiscal rewards of sin taxes are fleeting. States looking for growth are turning elsewhere.

by Doug Olberding

States looking for cash may be fooling themselves by turning to tried and true taxes, a new study by The Council of State Governments reveals.

Old standbys like the cigarette, motor fuels and traditional sales tax are likely to leave states spinning their wheels when it comes to generating future revenue growth, the study of state tax revenues from 1977 to 1990 shows.

Overreliance on worn-out tax sources are a losing proposition for states that must pay for rising health care, prison and other costs, said Merl Hackbart, senior fellow at the Council. Driven by federal mandates and medical inflation, state Medicaid costs are outpacing state revenue growth. Hackbart said, "Revenues must at least keep pace with personal income growth if states hope to keep this under control."

One tax that can keep pace is largely going untapped. Until recently many states have exempted such areas as advertising, janitorial, secretarial and legal services from the general sales tax. The Council's study supports arguments for broad-

ening the sales tax base to services such as these.

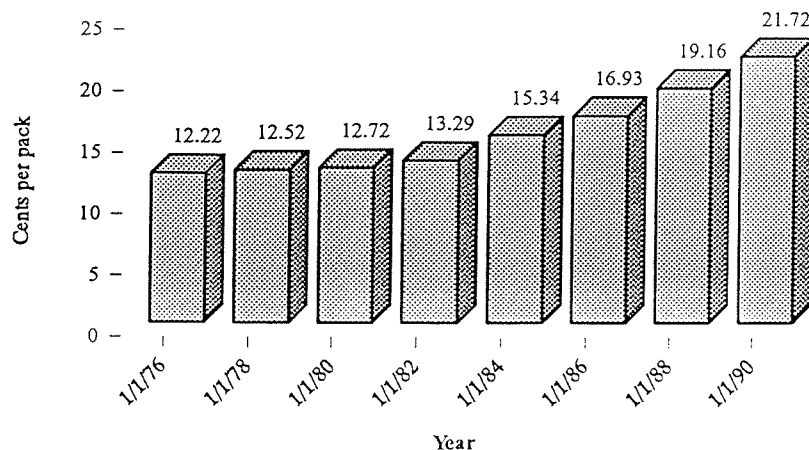
The Council analyzed state revenue data from the U.S. Census Bureau to find which tax sources best kept pace with personal income growth. The study measured each tax source's elasticity — its responsiveness to changes in personal income. This gives a measure of the fiscal health of a state by comparing state revenue growth to the growing wealth of the state's population.

The Council calculated the average elasticity for each state and then adjusted the result to control for one-time hikes in revenues when the rate first changed.

According to the study, states that increased taxes on cigarettes and other tobacco products saw no corresponding increase in revenue as personal income rose. Instead, in 20 states revenue from the tobacco excise tax actually decreased as personal income increased.

This can be explained, in part, by the decreasing demand for tobacco products. Since the surgeon general's 1964 report citing the health problems caused by cigarette smoking, the percentage of smokers in the United States has declined from 41 percent to about 25 percent today, said Carey O'Connor of the National Coalition on Smoking or Health.

Table 1: Average cigarette tax rate for all states — 1976 to 1990*



*Does not include Hawaii, which taxes cigarettes as a percent of wholesale price.
Source: *The Book of the States*, vols. 1976-77 to 1990-91

Doug Olberding is a research associate for The State Policy and Innovations group at The Council of State Governments.

Table 1 shows the average state tax rate increased from 13 cents per pack in 1976 to 23 cents per pack in 1990 with most of the increase occurring since 1984.

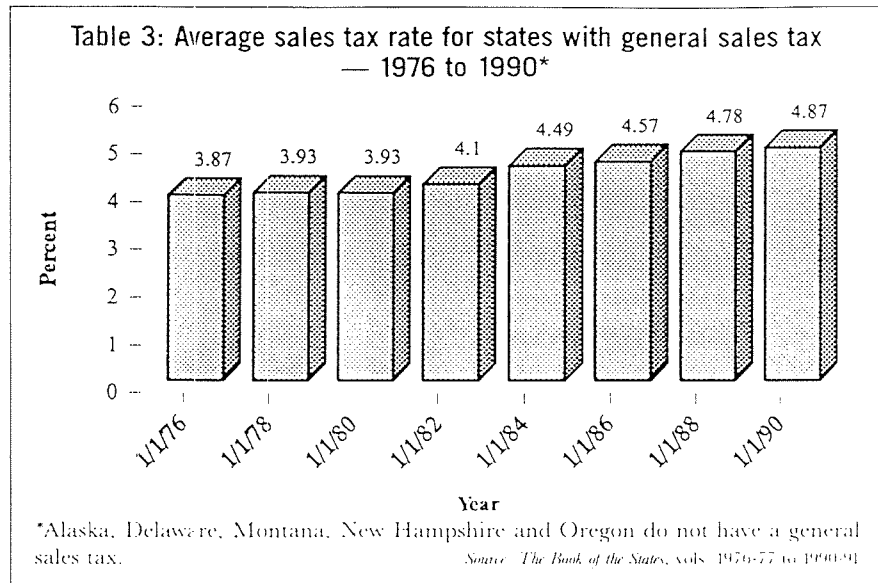
States that raise cigarette taxes may see a one-time revenue spurt, but in the long run cigarette tax revenues will fail to keep pace with increases in personal income as rates rise and demand falls. For example, when Canada raised its national and provincial excise rates to as high as \$5 a pack, smoking rates plummeted to below 15 percent, said O'Connor.

Another poor prospect for long-term revenue growth is the motor fuels tax. Revenue from motor fuels taxes increased at a much slower rate than personal income from 1977.

As Table 2 illustrates, states nearly doubled the cents-per-gallon tax from 1976 to 1990 to raise more revenue for highway construction and maintenance.

All states except New York and Alaska have raised motor fuel excise rates since 1976 for an average rate increase of 7.74 cents per gallon. Higher gas taxes combined with less gas usage by more fuel-efficient cars may have hurt gas tax revenue growth.

But the biggest threat to states that hope to raise revenue by increasing their gasoline tax rates is a proposal to increase the federal



gasoline tax as much as 50 cents a gallon over the next few years. If this occurs, states may have to look for other ways to pay for highway construction and maintenance.

Of the three revenue sources in this study, general sales tax is clearly the most responsive to changes in personal income.

A total of 22 states have an average adjusted elasticity equal to or greater than one, indicating revenue from sales tax grows steadily with taxpayers' income. The average rate for states with a general sales tax increased only 1 percent from

1976 to 1990 as indicated in Table 3.

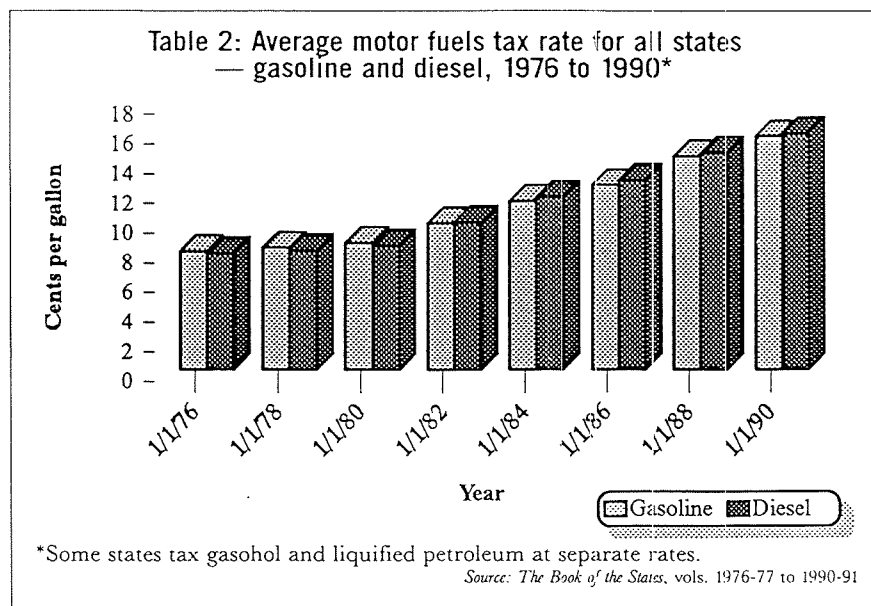
Most states still rely heavily on retail sales taxes on tangible goods for a large portion of their revenue. From 1977 to 1990, states received about one-fifth of their general fund revenue from the general sales tax.

However, as Table 5 shows, the average elasticity of general sales taxes in all states has been declining steadily since about 1984. Many economists argue that this problem could be fixed if states would broaden their sales tax base by including services.

"Much of the activity of the early 1980s focused on raising rates," said William Duncombe of the Metropolitan Studies Program at Syracuse University. "But since 1987 there has been a concerted effort to expand service taxation."

For most states, services remain an untapped source with more revenue potential than increasing tax rates on less responsive sources.

Debate over taxing services has heated up as the U.S. economy has become more service-oriented. Spending on services has increased steadily since the 1960s while spending on tangible goods has declined, according to the U.S. Commerce Department. In the third quarter of 1992, personal consumption expenditures for tangible goods were at 46



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Table 4: Rank order of adjusted elasticity for selected state revenue sources — 1977 to 1990

| Rank | State | General sales tax adjusted elasticity | State | Tobacco products tax adjusted elasticity | State | Motor fuels tax adjusted elasticity |
|---------|----------------|--|----------------|---|----------------|--|
| 1 | Iowa | 2.29 | Idaho | 1.43 | Louisiana | 3.28 |
| 2 | Louisiana | 2.07 | Wyoming | 0.89 | Nevada | 1.69 |
| 3 | Wyoming | 1.72 | South Dakota | 0.81 | Delaware | 1.52 |
| 4 | South Dakota | 1.39 | Hawaii | 0.74 | Tennessee | 1.21 |
| 5 | Ohio | 1.26 | Illinois | 0.58 | Iowa | 1.10 |
| 6 | Massachusetts | 1.20 | Utah | 0.56 | West Virginia | 0.97 |
| 7 | Florida | 1.19 | Rhode Island | 0.52 | Oregon | 0.88 |
| 8 | Tennessee | 1.18 | California | 0.48 | Virginia | 0.85 |
| 9 | Pennsylvania | 1.17 | Washington | 0.46 | Missouri | 0.84 |
| 10 | Washington | 1.17 | Kansas | 0.46 | Utah | 0.82 |
| 11 | Connecticut | 1.16 | Nebraska | 0.26 | Ohio | 0.79 |
| 12 | Texas | 1.15 | Wisconsin | 0.21 | Vermont | 0.76 |
| 13 | Arkansas | 1.14 | Maine | 0.19 | Oklahoma | 0.75 |
| 14 | North Carolina | 1.09 | Arkansas | 0.17 | Wisconsin | 0.71 |
| 15 | Hawaii | 1.09 | Nevada | 0.16 | Florida | 0.64 |
| 16 | Kentucky | 1.01 | Texas | 0.14 | New Mexico | 0.64 |
| 17 | Rhode Island | 1.01 | Florida | 0.14 | South Dakota | 0.63 |
| 18 | New York | 1.01 | Mississippi | 0.14 | Connecticut | 0.61 |
| 19 | Michigan | 1.01 | Iowa | 0.11 | Washington | 0.61 |
| 20 | Wisconsin | 1.00 | Tennessee | 0.10 | South Carolina | 0.60 |
| 21 | Minnesota | 1.00 | Georgia | 0.10 | Arizona | 0.60 |
| 22 | Idaho | 0.98 | Connecticut | 0.09 | Minnesota | 0.59 |
| 23 | Virginia | 0.96 | Alabama | 0.07 | Kansas | 0.56 |
| 24 | North Dakota | 0.96 | Montana | 0.06 | Maine | 0.56 |
| 25 | New Jersey | 0.94 | Arizona | 0.03 | Mississippi | 0.53 |
| 26 | Nevada | 0.94 | Oregon | 0.02 | Alabama | 0.51 |
| 27 | South Carolina | 0.94 | New Mexico | 0.01 | Texas | 0.48 |
| 28 | Maine | 0.94 | Colorado | 0.01 | Nebraska | 0.47 |
| 29 | Vermont | 0.93 | South Carolina | 0.01 | Montana | 0.46 |
| 30 | Georgia | 0.92 | Missouri | 0.00 | Georgia | 0.45 |
| 31 | California | 0.91 | Vermont | -0.06 | Indiana | 0.41 |
| 32 | Missouri | 0.90 | Delaware | -0.06 | Arkansas | 0.39 |
| 33 | Maryland | 0.89 | Virginia | -0.09 | Wyoming | 0.36 |
| 34 | Nebraska | 0.88 | New Hampshire | -0.09 | Idaho | 0.34 |
| 35 | Alabama | 0.83 | New Jersey | -0.11 | New Jersey | 0.33 |
| 36 | Arizona | 0.83 | Ohio | -0.13 | Colorado | 0.33 |
| 37 | Indiana | 0.83 | Indiana | -0.15 | Rhode Island | 0.33 |
| 38 | New Mexico | 0.82 | North Dakota | -0.16 | California | 0.26 |
| 39 | Mississippi | 0.81 | Pennsylvania | -0.18 | Hawaii | 0.25 |
| 40 | Kansas | 0.81 | New York | -0.19 | North Carolina | 0.23 |
| 41 | Illinois | 0.70 | Massachusetts | -0.21 | North Dakota | 0.23 |
| 42 | Utah | 0.68 | North Carolina | -0.22 | Maryland | 0.21 |
| 43 | Colorado | 0.47 | Maryland | -0.25 | Pennsylvania | 0.18 |
| 44 | West Virginia | -0.35 | Minnesota | -0.36 | New Hampshire | 0.16 |
| 45 | Oklahoma | -2.05 | Kentucky | -0.38 | Massachusetts | 0.16 |
| 46 | Alaska | | West Virginia | -0.42 | Illinois | 0.11 |
| 47 | Delaware | No | Michigan | -0.64 | Michigan | 0.10 |
| 48 | Montana | sales | Oklahoma | -0.85 | Kentucky | 0.09 |
| 49 | New Hampshire | tax | Alaska | -1.28 | New York | -0.17 |
| 50 | Oregon | | Louisiana | -1.39 | Alaska | -15.70 |
| Average | | 0.95 | | 0.03 | | 0.27 |

Table 4 summarizes the results for general sales tax, tobacco products tax and motor fuels tax. An elasticity coefficient of 1.0 means revenue from the tax increased at the same rate as personal income from 1977 to 1990. A coefficient greater than 1.0 means tax revenue increased more than personal income, indicating an elastic revenue source. And a coefficient less than 1.0 indicates revenue rose less than the increase in personal income.

Taxes to grow with

from page 12

percent while expenditures for services reached 54 percent.

But taxing services can be difficult politically and practically. In Massachusetts and Florida, newly enacted service tax packages were repealed in waves of anti-tax sentiment.

Massachusetts in 1990 passed broad-based service tax legislation aimed at utilities, professional, personal and business services, expanding the sales tax to 59 new services. However, the reform was short-lived, as Gov. William Weld pushed a repeal through the Legislature in March 1991. Only the utility taxes and a few select business service taxes were spared.

State tax systems have lagged behind the structural changes in the economy. Only recently have states initiated changes in their tax structure to reflect the service-oriented economy.

Table 5: General Sales Tax

| Year | Average Elasticity |
|------|--------------------|
| 1984 | 1.57 |
| 1985 | 1.59 |
| 1986 | 1.03 |
| 1987 | 0.96 |
| 1988 | 0.73 |
| 1989 | 0.80 |
| 1990 | 0.69 |

According to Ron Alt of the Federation of Tax Administrators, Pennsylvania, Massachusetts and New York have enacted the newest service taxes in the last two years. "Even though Pennsylvania extended the sales tax to cover 24 new services they're really just playing catch-up with the rest of the country."

Of the 160 services tracked by the FTA, the average state taxes 53. Pennsylvania now taxes 61 services. Massachusetts added 18 new services to its general sales tax even after the repeal but still ranks among

the lowest in the nation with only 20. The leaders are New Mexico and Hawaii, which tax 155, followed by Delaware at 141 and South Dakota at 130.

It is likely more states will add services to their sales tax base. The FTA expects more states to impose taxes on business services such as advertising, employment agency, security, janitorial and secretarial services. The most widely taxed business services are printing and photo finishing, taxed by 44 states.

Duncombe said states will move incrementally towards applying the sales tax to services rather than trying for wholesale tax reforms or massive changes like those attempted unsuccessfully in Florida and Massachusetts.

And as the Council study shows, states that expand their sales tax to services are positioning themselves to keep pace with growth in personal income and demand for government services. □

Power to the powerless

from page 11

The Louisiana House is already leaning to the right, said Rep. Melvin "Kip" Holden, a member of the black caucus. "When they make black districts, it leaves whites with little or no black representation."

As a result, Holden said, some white legislators are more cautious about voting with the black caucus, because they don't want to offend white voters. "I can see the negative impact of having more black legislators vs. less black people in a district," Holden said.

In 1992, blacks increased their numbers in the Louisiana House from 14 to 24 of 105 members and in the 39-member Senate from five to eight. That gives the black caucus more power, but there's disagreement on how much more. Even though the 24 members of the black caucus are a sizable voting block, their numbers are greater than their influence, said Bruneau.

The black caucus didn't wield as much influence as it might have in

1992's session because so many members were new, said Holden. "We were still feeling out where we stood on issues," he said. Most members of the caucus, he said, favor the interests of minorities, women, low- and middle-class people and labor.

In special court-ordered November elections, the number of black legislators in the 122-member Mississippi House increased from 21 to 32. That's a significant increase, but not as radical as it appears because black legislators have been steadily increasing over the last decade, said House Speaker Tim Ford.

The turning point came in 1984 when a coalition of black and white legislators revolted against the then-speaker. The coalition failed, but came back to oust the speaker in 1987. Since then, black legislators have been named to powerful committees like ways and means, said Rep. Barney Schoby.

Ford, a white who was elected speaker in 1992 with black support,

believes that increased black involvement has been good for the House. "It's beneficial in the fact that minority voices are regularly represented on factors before the Legislature," Ford said.

There's little racial polarization on legislative issues, said Ford. "We're divided more by urban and rural and liberal and conservative."

Just as Latino legislators feel the responsibility of representing their ethnic group, blacks feel they can more fairly represent the black population, said Rep. Charles Young, a leader in the black caucus. He expects the Mississippi black caucus to have greater influence on the budget process and bring more equity to division of tax revenues.

Black members want more attention to education and job development to help those in poverty. "Until we move the bottom of the state, we haven't moved the state," Young said. □

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PREPARED STATEMENT OF THE
SMOKELESS TOBACCO COUNCIL, INC.
IN OPPOSITION TO HOUSE BILL 2224
February 18, 1993

Mr. Chairman, Members of the Committee:

My name is Bill Sneed and I am Legislative Counsel for the Smokeless Tobacco Council, Inc. The Smokeless Tobacco Council, Inc., an association of smokeless tobacco manufacturers with its headquarters in Washington, D.C., appreciates the opportunity to present testimony in opposition to House Bill 2224. The Council represents the major domestic manufacturers of smokeless tobacco products in Kansas and throughout the nation. I have attached an exhibit to my remarks which lists the members of the Smokeless Tobacco Council.

Initially, let me state that the Council and its various members have concerns regarding the implementation of the programs in H.B. 2224. Further, we submit that the tax proposal under consideration by this Committee, which is included as the funding mechanism for the goals, is neither fair nor an effective way of providing such funding.

FAIRNESS

Initially, it is important to point out the demographics of those consumers who use smokeless tobacco products. They are typically individuals between the ages of 20 and 35 years old, high school graduates, and retain jobs which are commonly referred to as blue collar occupations. Thus, it is imminently clear, as has been demonstrated by other opponents of the bill, that the proposed tax would be severely regressive in nature

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and affect those individuals with the least amount of financial ability to pay for such a tax. In this era of attempting to provide various types of tax relief to those Kansas citizens with the least amount of financial wherewithal, we contend approval of the proposed bill would go directly to those Kansas citizens for whom the Legislature has been attempting to provide tax relief. In short, a tax on smokeless tobacco is a highly regressive tax because its burdens are concentrated on people with relatively low incomes.

ADDITIONAL TAXATION

I am sure the Committee is aware, but I would be remiss by not reminding the Committee of the substantial federal tax increase my client incurred effective January 1, 1991. By virtue of the new tax law, my client was assessed a 25% tax increase in federal taxes on January 1, 1991, and as of January 1, 1993, my client was assessed an additional new 25% tax increase.

This issue is compounded by the fact that smokeless tobacco products are currently double taxed. There is the current 10% state excise tax, and in addition, a state sales tax at the time of purchase is added to the already taxed product.

CROSS-OVER ISSUE

You will hear testimony today of the problems that occur due to the significant differences in state tax rates between the various states. Although you could argue that a slight tax rate increase in Kansas versus a lower tax rate in another state could lend only minor bootlegging of products, in our case it is even more dramatic. Currently the state of Missouri has NO tax on smokeless tobacco products. This is even more striking

in that even in Jackson County in Missouri there is NO tax on smokeless tobacco products. Thus, we believe that any increase in the tax in Kansas will lead to a major loss in revenue.

Further, the impact extends well beyond the immediate impact on smokeless tobacco sales and tax revenues. Again, as has been testified to by other opponents, people who travel to buy smokeless tobacco will buy other things as well as long as they are making the trip. Thus, the cross-over effect is far reaching as it relates to sales tax revenues.

CONCLUSION

The Smokeless Tobacco Council opposes enactment of H.B. 2224 because it believes such a proposed tax would be an extraordinarily heavy and punitive levy. Further, the burden of the tax would be shouldered predominately by citizens with comparatively low incomes, and despite the regressive and punitive character of the proposed tax, little contribution would be made to the State of Kansas.

We appreciate this opportunity to appear before the Committee today, and we will be happy to answer any questions.

Respectfully submitted,



William W. Sneed
Legislative Counsel
The Smokeless Tobacco Council, Inc.

SMOKELESS TOBACCO COUNCIL, INC.
Member Companies

Brown & Williamson Tobacco Corporation

Conwood Company L.P.

Helme Tobacco Company

National Tobacco Company

The Pinkerton Group, Inc.

U.S.T., Inc.

HEIN, EBERT AND ROSEN, CHI

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*Ronald R. Hein
William F. Ebert
Eric S. Rosen
Stephen P. Weir*

**HOUSE TAXATION
TESTIMONY RE: HB 2224
PRESENTED BY RONALD R. HEIN ON BEHALF OF
R. J. REYNOLDS TOBACCO USA
February 18, 1992**

Mr. Chairman, members of the Committee:

My name is Ron Hein, and I am legislative counsel for R. J. Reynolds Tobacco.

On behalf of our customers who will pay this tax increase, we oppose HB 2224. This is not a tax increase on tobacco and this is not a tax increase on tobacco companies. HB 2224 is, pure and simple, a general tax increase on citizens in this state. According to the Tobacco Institute, approximately 29% of the adults will pay this tax increase.

At a time when the voters are begging their legislators not to have any more tax increases, this direct tax increase on hundreds of thousands of Kansans is being considered.

You have heard testimony before that a cigarette tax increase is a regressive tax, it hits the poor harder than anybody else.

You have also heard before what a cigarette tax increase will do on border sales. It is possible that you will be able to measure the lost cigarette tax collections resulting from an increase in the rate, but it is doubtful that you will be able to measure the lost sales tax revenue or gasoline tax revenue which results from persons purchasing tobacco products and at the same time, gasoline and other grocery articles across the state line. Do not be deceived that simply because you are increasing the rate of the tax that the state will collect more tax revenue.

The concept of this legislation is frightening. What will the next piece of special interest legislation look like? Will we have a tax on meat because some group wants to advertise their message about potential risks of red meat? Will farmers be taxed to advertise dangers of pesticides? Should we have a salt tax to pay for the demonstrated costs of hypertension? How far should this Orwellian type of legislation go to permit the state to social engineer individual conduct?

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RJR believes that this type of legislation unfairly discriminates against a class of citizens, who oftentimes are treated like second-class citizens. And, meanwhile the non-smokers can go about their business, choosing whatever lifestyle, healthy or unhealthy, that they choose, with no similar government mandated behavior program to follow.

Thank you very much for permitting me to testify today, and I would be happy to yield for any questions.

M E M O R A N D U M

TO: Ms. Gloria M. Timmer, Director
Division of Budget

DATE: February 17, 1993

FROM: Kansas Department of Revenue

RE: House Bill 2224
As Introduced
"Revised Fiscal
Impact"

BRIEF OF BILL:

House Bill 2224, as introduced, is new legislation levying a new tax upon cigarettes and other tobacco products for the purpose of providing funds for programs for the prevention of tobacco-related diseases.

Section 1 states the intended purpose of the act to use the produced revenue to defray costs incurred by taxpayers of the state resulting from use of tobacco and to improve the overall health of the population of the state.

Section 2 defines the terms "cigarettes" and "tobacco products" as used in the act.

Section 3 provides that, in addition to all other occupation or privilege taxes imposed by the State that there is to be levied upon the privilege of selling, distributing and giving away cigarettes and tobacco in the State a tax: 1) at the rate of \$.10 on each package of cigarettes and 2) at the rate of 20% of the wholesale value of tobacco products.

Section 4 outlines the filing requirements of the wholesale dealer or distributor.

Section 5 provides administrative procedures relating to distributors failing to file a return who are required to do so.

Section 6 levies an interest rate and penalty provisions for delinquent returns.

Section 7 is administrative in nature.

Section 8 provides for administrative hearings before the Director of Taxation.

Section 9 allows for appeals to the Board of Tax Appeals.

Section 10 empowers the Secretary of Revenue with the responsibility of making and enforcing necessary rules and regulations to administer the provisions of this act.

Section 11 provides that violation is a misdemeanor punishable by a fine of not more than \$1,000 or imprisonment for not more than one year, or both.

Section 12 provides for the deposit of revenues into the Tobacco-related Disease Health Protection Fund and outlines the purposes for which expenditures may be made.

Section 13 provides that on or before January 1, 1994, and each year thereafter, The Kansas State Preventive Health Advisory Committee is to make recommendations to the Legislature for expenditures from the Tobacco-Related Disease Health Protection Fund with 1/3 dedicated to

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prevention and intervention, 1/3 dedicated to health education and public information and 1/3 dedicated for direct services.

The effective date of this bill would be July 1, 1993.

FISCAL IMPACT:

It is estimated that passage of this bill would result in approximately \$22.0 million in Fiscal Year 1994 revenues.

The Fiscal Year 1994 consensus estimate for cigarette tax receipts is \$50.0 million at a tax rate of \$.24 per pack of 20 cigarettes. This would be the result of sales of \$208.3 million packs of cigarettes. According to a study published in the January 1992 issue of the American Journal of Public Health, for every 1 cent increase in cigarette taxes, sales fell by about 0.6%. Using this criteria, a \$.10 increase as a result of this bill would result in a 6% decrease in consumption. The \$.10 tax increase would amount to \$19.58 million per full year (\$208.3 million x .94 x .10). The impact for Fiscal Year 1994 would be 11/12 of the full year figure or \$17.95 million.

The consensus estimate for Fiscal Year 1994 for tobacco products is \$2.35 million at a tax rate of 10%. This bill calls for an additional 20% tax at the wholesale level. Assuming a similar 6% decline in consumption, the increase would amount to \$4.4 million (\$23.5 million x .2 x .94). The impact for Fiscal Year 1994 would be 11/12 of the full year figure or \$4.05 million.

ADMINISTRATIVE IMPACT:

Passage of House Bill ²²²⁴3048 would result in no significant administrative costs or problems for the Department of Revenue.

ADMINISTRATIVE COMMENTS:

This bill does not provide for an inventory or floor tax upon cigarette and tobacco products already on hand as of the effective date of the bill. In the past, when the tax upon these products has been raised, provision has been made for the taxing of such inventories to bring the tax up to the new amount.

APPROVED BY:


Nancy Parrish
Secretary of Revenue