

TO: Vincent DeMarco

FROM: Kathleen Dachille; William Tilburg

DATE: September 26, 2012

RE: Maryland Non-Cigarette Tobacco Products Tax Increase – July 1, 2012

INTRODUCTION

In an effort to reduce the number of Maryland youth using non-cigarette tobacco products, decrease the public health risks associated with tobacco use, and increase State revenue, Governor O'Malley signed a bill into law on May 22, 2012 raising the state excise tax on certain non-cigarette tobacco products (or "other tobacco products," OTP). Beginning July 1, the tax rate on smokeless and smoking tobacco increased from **15 to 30 percent** of the wholesale price and the tax rate on non-premium cigars (e.g. little cigars, cigarillos, etc.) increased from **15 to 70 percent** of the wholesale price. These non-premium cigar products are commonly sold individually or in packages of five. The following table depicts the effect of the tax rate increase on the retail price of various tobacco products.

RETAIL PRICE OF CIGARS AND SMOKELESS TOBACCO¹ (Pre/Post excise tax increase)

Tobacco Product	Pre-Tax Increase (Single)	Today (Single)	Pre-Tax Increase (5-Pack)	Today (5-Pack)
Black and Mild	\$1.29	\$1.69	\$5.49	\$7.99
Swisher Sweets	\$1.19	\$1.59	\$5.49	\$7.99
Phillies	\$1.29	\$1.69	\$5.69	\$7.67
Dutchmasters	\$1.69	\$2.19	\$5.99	\$6.99
Skoal	\$4.99	\$5.49		
Copenhagen	\$3.15	\$3.45		
Came Snus	\$3.19	\$3.39		

Source: Prices reflect purchases made in Baltimore City stores before/after tax rate change took effect²

HARMFUL EFFECTS OF NON-CIGARETTE TOBACCO PRODUCTS

The OTP tax increase will discourage Maryland residents from using tobacco products and as a result help save lives. Each year 6,800 Marylanders die as a result of tobacco use. The majority of these deaths are caused by cigarette smoking, but non-cigarette tobacco products are also deadly.

Smokeless tobacco and cigars are commonly thought to present a safer alternative to cigarettes; however, they contain the same toxic and carcinogenic compounds as cigarettes. **Specifically, smokeless tobacco and cigars can cause adverse health outcomes**, including, cancer (e.g. oral, lung, esophageal) and cardiovascular and pulmonary diseases. For example, cigar smokers are **4 to 10 times more likely** than nonsmokers to die from cancers of the mouth, larynx and esophagus.³

NON-CIGARETTE TOBACCO PRODUCT USE AMONG MARYLAND YOUTH

As cigarette smoking rates continue to decline among underage high school youth in Maryland (23.0% to 14.1%, 2000-2010), the use of non-cigarette tobacco products, such as smokeless tobacco and cigars, has steadily increased. From FY 2001 to FY 2011 the consumption of cigars in Maryland increased by 176 percent.⁴ Over the same period underage high school cigar use increased 11.2 percent and smokeless tobacco use increased 2.1 percent.⁵ In fact, the 2010 Maryland Youth Tobacco Survey found **almost as many underage high school youth reported smoking cigars (13.9%) as cigarettes (14.1%)**, and 79 percent of tobacco users reported using a product other than (or in addition to) cigarettes.⁶

The tax increase on OTPs should help reverse this trend and decrease tobacco use rates in Maryland. Nearly **90 percent of first-time tobacco users in Maryland are under the age of 18** and roughly **1 in 4 tobacco users in the state are high school students**.⁷ However, economic studies indicate that higher taxes effectively reduce youth smokeless tobacco use and cigar smoking.⁸ The general consensus among researchers is that a 10 percent increase in cost correlates to a 6 to 7 percent decrease in the number of youths using these products. Accordingly, the Campaign for Tobacco-Free Kids estimates that the recent increase in the tax on non-premium cigars can reduce youth cigar use by up to one-third.

REVENUE INCREASE

The Department of Legislative Services calculates that increasing the OTP tax rate from 15 to 30 percent of the wholesale price and the non-premium cigar tax rate from 15 to 70 percent will significantly increase the annual tobacco tax revenue. Despite a likely decrease in consumption (and subsequently a decrease in OTP sales tax revenue), **overall OTP tax revenues are projected to increase by more than 25 percent** from FY 2012 to FY 2013. And, general fund revenues should increase by a total of nearly **\$24 million** over a five-year period as a result of increased OTP tax revenues.⁹

¹ A special thank you to Bobby Laughlin and Ernest Le, for their tireless efforts surveying the prices of OTP products at retail establishments throughout Baltimore City.

² The table reflects a small sample of tobacco product prices taken in Baltimore city

³ NCI, *Cigars: Health Effects and Trends*, 1998. See also, Baker, F, et al., "Health Risks Associated with Cigar Smoking," *Journal of the American Medical Association* 284(6):735-740, 2000.

⁴ Department of Health and Mental Hygiene [hereafter DHMH], *Fact Sheet: Cigar Use Among Maryland Youth, The Cigar Trap*, available at http://dhmh.maryland.gov/thecigartrap/new/FactSheet_Cigar_Use_Among%20MD_Youth.pdf.

⁵ DHMH, *Monitoring Changing Tobacco Use Behaviors, 2000-2010: Legislative Report*, Cigarette Restitution Fund, Tobacco Use Prevention and Cessation Program, November 16, 2011, available at http://mdquit.org/sites/default/files/pdf_files/2010%20BiennialTobaccoReport%5B1%5D.pdf.

⁶ DHMH, *Fact Sheet: Cigar Use Among Maryland Youth*, *supra* note 2.

⁷ DHMH, *Monitoring Changing Tobacco Use Behaviors*, *supra* note 5 at 9.

http://mdquit.org/sites/default/files/pdf_files/2010%20BiennialTobaccoReport%5B1%5D.pdf

⁸ F.J. Chaloupka, J. Tauras and M. Grossman, *Public Policy and Youth Smokeless Tobacco Use*, *Southern Economic Journal* 64(2):503-16, October 1997. Ringel, JS, Wasserman, J, & Andreyeva, T, *Effects of Public Policy on Adolescents' Cigar Use: Evidence From the National Youth Tobacco Survey*, *American Journal of Public Health* 95:995-998, 2005.

⁹ Maryland General Assembly, Department of Legislative Services, *Fiscal and Policy Note: Senate Bill 523*, available at [http://mlis.state.md.us/google_docs\\$/2012rs/fnotes/bil_0003/SB0523.PDF](http://mlis.state.md.us/google_docs$/2012rs/fnotes/bil_0003/SB0523.PDF).