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Missouri Hits Bottom: It's Time for Cigarette Tax Reform

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Missouri is facing its worst sustained revenue decline since the Great Depression of the 1930s. In fiscal year (FY) 2009, Missouri net General Revenue (GR) collections declined 6.9 percent, and in FY 2010, net GR declined an additional 9.1 percent. As a result, in the last year alone, the state cut \$912 million from core services and infrastructure needs including health, education, and social services that help our families thrive, including foster care services, Parents as Teachers, and access to drug and alcohol treatment.¹

Unfortunately, forecasts for FY 2012 remain dismal. With the reduction in federal economic recovery funds, and continued stagnant state revenue, the Missouri Budget Project currently estimates another \$800 million shortfall in FY 2012. It is clear that Missouri must seriously consider enhancing revenues as part of the solution to its ongoing budget crisis.

Bringing Missouri's cigarette taxes in line with those of other states should be considered as one component of a balanced revenue enhancement plan.

The Missouri Cigarette Tax Drops to 50th

As of July 1st, Missouri's cigarette tax became the lowest in the nation.² At 17 cents per pack, Missouri's cigarette tax is not only well below the national average of \$1.43 per pack, but \$0.90 below the \$1.07 average of our primary bordering states, and is behind every major tobacco producing state, which average 48.5 cents per pack.³ Missouri's cigarette tax is 43 percent less than Virginia's 30-cent per pack tax, the second-lowest tax in the country.

The first Missouri cigarette tax was enacted in 1956 at a rate of two cents per pack of 20 cigarettes. It was last increased in 1993, and after adjusted for inflation, Missouri's cigarette tax is actually lower today than in 1961.⁴

In FY 2010, Missouri collected \$106.2 million from its cigarette and other tobacco products tax, about 0.7 percent of the state's own-source operating budget.⁵ Missouri legislators could increase the tobacco tax substantially while still remaining among the lowest tobacco tax rates in the country. In fact, were Missouri to double its current cigarette tax, it would still be the second-lowest in the nation. Given the

¹ Missouri Office of Administration, Division of Budget & Planning; August 2010; Missouri Budget Update

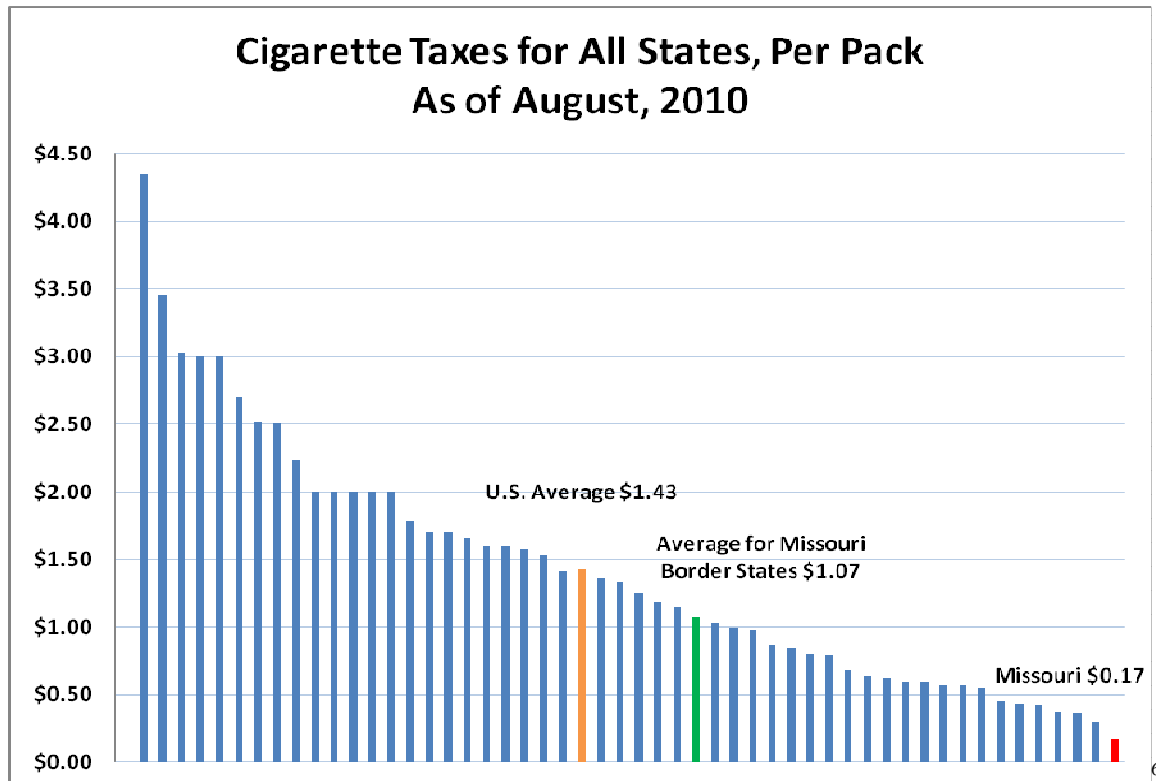
² On July 1st, South Carolina increased its cigarette tax from 7 to 57 cents, going from the lowest tax in the nation to the 9th lowest.

³ Data from the Campaign for Tobacco Free Kids. Missouri's primary bordering states are Iowa, Arkansas, Illinois, and Kansas. Major tobacco-producing states are Kentucky, N. Carolina, Tennessee, S. Carolina, Virginia, and Georgia.

⁴ Calculated by MBP based on U.S. Bureau of Labor Statistics Consumer Price Index inflationary figures and data from the Missouri Tax Expenditure Report on tobacco tax revenue.

⁵ Missouri's operating budget, excluding federal funds, was \$14.989 billion in FY 2010.

dismal shortfalls expected in next year's budget, increases in this underused revenue option should be explored. Responsible revenue solutions are needed to support the services and infrastructure that economic growth in Missouri will require and provide the foundation on which a strong economy is built.



Health and Financial Costs of Smoking in Missouri Are High

Even if Missouri's overall fiscal condition were solid, a strong case could be made for higher tobacco taxes due to public health concerns and the costs of smoking to the state. Missouri's low tobacco taxes may contribute to its unfortunate recognition as a national leader in adult smoking rates and tobacco-related illness and death. Of the fifty states, Missouri ranks:⁷

- 4th in percent of adults that smoke
- 5th in rate of new lung cancer cases
- 7th in lung cancer death rate

While these high rates of tobacco-induced illness and death are a major cause of concern in and of themselves, they also impose substantial costs on the state. According to the Centers for Disease Control, tobacco-related illnesses cost Missouri's Medicaid program \$532 million in 2004.⁸ Based on medical inflation, the Missouri Budget Project estimates that smoking-related illness costs the state's Medicaid system \$641 million in 2009 of combined federal and state funds, of which \$256 million was state general revenue.⁹

⁶ State by state tax data can be found in the Appendix.

⁷ *CQ Press 2010 State Health Rankings Book*

⁸ Centers for Disease Control

⁹ The *Bureau of Labor Statistics* reports that the "medical care" inflation rate as measured by their Consumer Price Index rose 20.5% between 2004 and 2009.

Increasing the contribution of tobacco taxes to the Missouri budget could not only decrease these medical costs over time, but also provide needed revenue to invest in vital services including tobacco control and cessation services.

Policy Options for Updating Missouri's Tobacco Tax

Under the Missouri Constitution,¹⁰ the legislature is restricted in the amount of new taxes that they can impose in a given year without voter approval. For FY 2010, the *Missouri Office of Administration* estimated the limit as e \$96 million. In other words, the legislature would be able to increase a tax up to \$96 million without voter approval. Because of this constitutional requirement, updating Missouri's cigarette tax to be closer to the national average will require voter approval.

The following demonstrates two scenarios that would bring Missouri's tax rate into line with its neighbors as well as the nation. The revenue generated under each option would provide much needed resources for education and health care in the state, and could have significant benefits upon health outcomes in Missouri. In FY 2009, the state cigarette tax yielded \$94.8 million or approximately \$5.6 million for each one cent of tax per pack. This figure was used to estimate the revenue yields for the tax options outlined.

Option One:

Missourians could support an increase of the cigarette tax rate to be in line with the average of its neighbors, or \$1.07 per pack. The increase of \$0.90 per pack over Missouri's current rate would generate approximately \$500 million in new revenue.

Option Two:

Missourians instead could support an increase of the cigarette tax rate to be equal to the national average of \$1.43 per pack. This increase of \$1.26 per pack over the current Missouri rate would generate about \$705 million.

With either increase, Missouri should assume that some decline in consumption would occur, decreasing somewhat over time the total amount of new revenue obtained from the increased rate. For example, research has shown that a 10 percent tax increase results in a drop in smoking of between 6.5-10 percent among teenagers.¹¹

However, at the same time, costs to the state Medicaid and other public health care services due to tobacco-related illness can also be expected to decrease as consumption drops. Because of these factors, the revenue estimates provided in the above options should be viewed as "ballpark" figures.

Summary

As of July 1st, Missouri became the 50th lowest in tobacco tax rates in the nation. Not increased since 1993, the Cigarette tax has been a significantly underutilized revenue source in Missouri. Missouri's cigarette tax rate is now \$1.23 per pack behind the nation and \$0.90 per pack behind even its neighboring states. Given the state's ongoing budget struggles, a reasonable cigarette tax increase should be a viable policy option. The increased revenue for education, health care and other critical services would provide benefit to the state for years to come.

¹⁰ Article X, Section 18(e)

¹¹ "Tobacco in Missouri: Policy Options to Reduce the Burden", Jessica Hembree, Health Care Foundation of Greater Kansas City, 2010

APPENDIX

Cigarette Taxes per Pack, By State

As of August 3, 2010

Source: Campaign for Tobacco Free Kids

New York	\$4.35
Rhode Island	\$3.46
Washington State	\$3.025
Connecticut	\$3.00
Hawaii	\$3.00
New Jersey	\$2.70
Wisconsin	\$2.52
Massachusetts	\$2.51
Vermont	\$2.24
Alaska	\$2.00
Arizona	\$2.00
Maine	\$2.00
Maryland	\$2.00
Michigan	\$2.00
New Hampshire	\$1.78
Montana	\$1.70
Utah	\$1.70
New Mexico	\$1.66
Delaware	\$1.60
Pennsylvania	\$1.60
Minnesota	\$1.576
S. Dakota	\$1.53
Texas	\$1.41
US Average	\$1.43
Iowa	\$1.36
Florida	\$1.339
Ohio	\$1.25
Oregon	\$1.18
Arkansas	\$1.15

Average for MO	\$1.07
Border States	
Oklahoma	\$1.03
Indiana	\$0.995
Illinois	\$0.98
California	\$0.87
Colorado	\$0.84
Nevada	\$0.80
Kansas	\$0.79
Mississippi	\$0.68
Nebraska	\$0.64
Tennessee	\$0.62
Kentucky	\$0.60
Wyoming	\$0.60
Idaho	\$0.57
S. Carolina	\$0.57
West Virginia	\$0.55
N. Carolina	\$0.45
N. Dakota	\$0.44
Alabama	\$0.425
Georgia	\$0.37
Louisiana	\$0.36
Virginia	\$0.30
Missouri	\$0.17