

Alliance for a Healthy New England

HEALTH NOW! MASSACHUSETTS

MYTHS AND FACTS ABOUT THE *HEALTH NOW!* LEGISLATION

1. It's regressive and punishes low-income smokers.

A report from the Congressional Budget Office (CBO) in 1990 indicates that the regressivity of the tobacco tax is overstated. If annual family expenditures are more reflective of lifetime income than annual family income, then expenditures on tobacco are only slightly regressive over income class. The CBO also examined the effect of tax increases and concluded that such increases were approximately proportional rather than regressive, and in fact somewhat progressive.

The reality is that low-income Massachusetts residents *are* targeted by tobacco industry advertising campaigns, have higher smoking rates than many other groups, and suffer disproportionately from smoking-related diseases. At the same time, they are least able to afford added health care costs, and least likely to have access to health care, health education programs, or smoking cessation services.

Here are the facts:

- ✗ The vast majority of low-income people in Massachusetts do not smoke. They will reap significant benefits from the bill – including access to affordable health coverage, community health outreach workers and the security health coverage brings.
- ✗ For the minority of low-income people who smoke, increasing the price of cigarettes through a tax increase is the most effective way to reduce smoking. In fact, economic analysis has demonstrated that a 50-cent cigarette tax will decrease spending on tobacco by the bottom quarter of income by about 3%.
- ✗ *Health Now!* mandates that the Commonwealth provide smoking cessation assistance to MassHealth beneficiaries, and provides the funds to make this possible.

Finally, *all* of the benefits of the health care expansions, smoking cessation programs and Community Health Worker outreach services funded by *Health Now!* go to people in the lowest income brackets. In short, tobacco taxes paid by all smokers will go to finance health benefits for low-income parents, young adults and the working poor.

2. We shouldn't fund something as important as health care on a tobacco tax. What are you going to do when everybody stops smoking?

When everyone stops smoking, we will throw a huge party to celebrate the end of one of the most destructive public health hazards in human history. But unfortunately, that's not going to happen in anyone's lifetime. The tobacco industry is spending more and more each year to try to get people hooked on what they now admit is an addictive product. According to the FTC, in 1999 the industry spent a record \$8.4 billion for marketing, a 22% increase from the previous year. The marketing pays off — 569,000 kids are expected to become regular smokers in 2001.

The *Health Now!* bill will lead to reductions in smoking in Massachusetts. In planning our program, we have taken this reduction into account and are only planning to spend an amount that can be sustained for years to come. Specifically, independent expert estimates forecast FY 2002 tobacco tax revenues of

about \$181 million if the *Health Now!* bill was enacted this year. These revenues will decline to about \$169 million in FY 2006, according to the estimates. The total amount raised over the 5 years is \$840 million. Yet the conservatively-budgeted health expansion spending program proposed in the bill (which includes future inflation and other adjustments) require tobacco tax revenues of about \$780 million over those five years. Thus we still have a substantial surplus built in by design. (Total spending, of course, will be much higher as the federal government will match most of the state cost with additional federal dollars).

Funding health care with a tobacco tax builds on the foundation we established in 1996's historic MassHealth legislation. That pattern was replicated in numerous other states, and by the federal government in the SCHIP bill (State Children's Health Insurance Program), also funded by a tobacco tax increase. Then as now, the legislative leadership termed the program a "win-win-win" bill, as the tax increase improved public health by simultaneously discouraging teen smoking, providing funds to cover kids and others without access to coverage, and stabilizing our hospitals and other providers bearing the brunt of the burden of the uninsured.

3. I can't believe that a 50-cent tobacco tax increase will really stop people from smoking - never mind teenagers who spend larger amounts of money for illegal drugs.

Research has consistently shown that higher cigarette prices result in lower overall cigarette consumption, with studies indicating that a 10% increase in price will reduce overall cigarette consumption by 3% -5% (Surgeon General's Report on Reducing Tobacco Use).

Teenagers are more price-sensitive than adults, and this shows in their reaction to dramatic price hikes in cigarettes. A study released in April 2001 provides evidence that higher cigarette prices are most effective in keeping kids from becoming regular, addicted smokers. Raising the tobacco tax 50 cents will decrease the number of youth smokers by 8.5%, and will prevent 28,000 kids from falling prey to tobacco addiction (Impact Teen, Taurus et al study, April 2001).

4. Won't people start buying cigarettes over the Internet to avoid having to pay the increased tax?

Internet sales are not exempt from state sales taxes, and *Health Now!* is committed to making sure that people do not avoid legal taxes. Internet sales of tobacco products are tiny now, and we do not expect it to increase substantially. Even now, most purchases of cigarettes are by the pack, despite their being cheaper by the carton. Internet sales typically require minimum quantities and the payment of shipping charges, which discourage many people.

Two provisions of the *Health Now!* bill are aimed at reducing the problem of internet sales. One provision directs the Department of Revenue to aggressively collect taxes owed by people buying from out-of-state Internet vendors. Under a federal law, interstate sellers of cigarettes are required to inform the authorities of the recipients of their products. California and other states have begun to bill residents who do not pay the taxes due to their state. Massachusetts DOR officials have tried to get the names from some cigarette vendors, but we believe they need to step up enforcement and take recalcitrant sellers to court. A second provision would outright ban Internet sales to Massachusetts residents. Besides being a route to evade taxes, Internet sales preclude adequate proof that the buyer is over the minimum age requirement. A similar law was passed in New York, and is now tied up in litigation by the tobacco industry over its constitutionality. The provision in the *Health Now!* bill states that the ban would become effective in Massachusetts once a court has ruled on its legality.

