

North Dakota

BENEFITS FROM A \$2.00 PER PACK CIGARETTE TAX

Current state cigarette tax: 44 cents per pack (46th among all states)

Smoking-caused costs in North Dakota: \$10.48 per pack

Annual healthcare expenditures in North Dakota directly caused by tobacco use: \$247 million

Smoking-caused state Medicaid program spending each year: \$47.0 million

New Annual Revenue from Increasing the Cigarette Tax Rate by \$1.56 Per Pack: \$33.1 million

Additional Revenue from Raising Other Tobacco Product Rates to Parallel New Levels: \$3.2 million

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits from the Cigarette Tax Rate Increase

<i>Percent decrease in youth smoking:</i>	25.7%
<i>Kids in North Dakota kept from becoming addicted adult smokers:</i>	7,900
<i>Current adult smokers in the state who would quit:</i>	5,300
<i>Smoking-affected births avoided over next five years:</i>	1,800
<i>North Dakota residents saved from premature smoking-caused death:</i>	3,900
<i>5-year health savings from fewer smoking-affected pregnancies & births:</i>	\$3.1 million
<i>5-year health savings from fewer smoking-caused heart attacks & strokes:</i>	\$2.4 million
<i>Long-term health savings in the state from adult & youth smoking declines:</i>	\$188.6 million

- Tax increases of less than roughly 25 cents per pack or 10% of the average state pack price do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state more revenues, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, RYO, or smokeless. To parallel the new \$2.00 per pack cigarette tax, the state's new OTP tax rate should be at least 65% of wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

Tobacco's Toll in North Dakota – updated 10/4/2010

<i>North Dakota residents who will die this year from smoking:</i>	800
<i>North Dakota residents' state & federal tax burden from smoking-caused government expenditures:</i>	\$564/household
<i>Amount tobacco industry spends marketing tobacco in North Dakota per day & per year:</i>	\$88,500/day \$32.3 million/year
<i>Adults who smoke:</i>	17.4% (92,700)
<i>High school students who smoke:</i>	22.4% (8,600)
<i>Kids (under 18) who try cigarettes for the first time each year:</i>	2,500

Source: Campaign for Tobacco-Free Kids www.tobaccofreekids.org

Why raise tobacco taxes?

1. Raising tobacco taxes is one of the most cost-effective ways to **reduce smoking, especially among youth.**
2. Raising tobacco taxes is one of the most cost-effective ways to **encourage smokers to quit.**
3. Raising tobacco taxes **causes a predictable smoking decline that locks in large health-related cost reductions** for state government, private sector, and households, who pay for the costs of smoking.
4. Most of the public health improvements resulting from the decrease in smoking caused by tobacco tax increases **directly benefit low-income populations**, who are most likely to quit or cut down when taxes increase. Lower income households suffer disproportionately from, & can least afford, the smoking-caused health care costs.
5. Nationwide, 60 percent of all smokers have incomes greater than 200 percent of the poverty line; but roughly **three of four smokers who quit because of a cigarette tax increase will have incomes below 200 percent of the poverty line.**
6. **Those wanting to quit using tobacco can access the resources of North Dakota's new Measure 3-funded comprehensive tobacco prevention program**, which includes expanded free services located in local public health units serving every county.
7. As long as North Dakota funds its comprehensive tobacco prevention program at the CDC-recommended level, new general fund **revenue generated by a tobacco tax increase could be invested in other public health services and programs** that will continue to improve the health North Dakota citizens and further reduce the costs of preventable diseases.

Campaign for Tobacco-Free Kids 7.30.10 / Ann Boonn & Eric Lindblom, September 28, 2010

Explanations & Notes

- Projections are based on research findings that each 10% cigarette price increase reduces youth smoking by 6.5%, adult rates by 2%, and total consumption by 4% (adjusted down to account for tax evasion effects). Revenues still increase because the higher tax rate per pack will bring in more new revenue than is lost from the tax-related drop in total pack sales.
- The projections incorporate the effect of both ongoing background smoking declines and the continued impact of the 61.66-cent federal cigarette tax increase (effective April 1, 2009) on prices, smoking levels and pack sales.
- These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, <http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf>.
- Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over the lifetimes of persons who stop smoking or never start because of the rate increase. All cost and savings in 2004 dollars. Projections will be updated when new relevant data or research becomes available.
- Ongoing reductions in state smoking levels will, over time, gradually erode state cigarette tax revenues (in the absence of any new rate increases). But those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues (which can drop sharply during recessions). In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused costs. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <http://tobaccofreekids.org/research/factsheets/pdf/0303.pdf>.
- For other ways states can increase revenues (and promote public health) other than just raising its cigarette tax, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf>.
- **For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>**

Additional Information on Tobacco Product Tax Increases

Raising State Cigarette Taxes Always Increases State Revenues and Always Reduces Smoking,

<http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

Responses to Misleading and Inaccurate Cigarette Company Arguments Against State Tobacco Tax Increases,

<http://tobaccofreekids.org/research/factsheets/pdf/0227.pdf>.

State Cigarette Excise Tax Rates & Rankings, <http://tobaccofreekids.org/research/factsheets/pdf/0097.pdf>.

Top Combined State-Local Cigarette Tax Rates (State plus County plus City), <http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf>.

State Cigarette Tax Increases Benefit Lower-Income Smokers and Families, <http://tobaccofreekids.org/research/factsheets/pdf/0147.pdf>.

The Best Way to Tax Smokeless Tobacco, <http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf>.

The Problem with Roll-Your-Own (RYO) Tobacco, <http://tobaccofreekids.org/research/factsheets/pdf/0336.pdf>.

How to Make State Cigar Tax Rates Fair and Effective, <http://tobaccofreekids.org/research/factsheets/pdf/0335.pdf>.

State Benefits from Increasing Smokeless Tobacco Tax Rates, <http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf>.

The Case for High-Tech Cigarette Tax Stamps, <http://tobaccofreekids.org/research/factsheets/pdf/0310.pdf>.

State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion,

<http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf>.

The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs,

<http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf>