



## BENEFITS FROM RAISING OHIO'S TAX RATE ON TOBACCO PRODUCTS OTHER THAN CIGARETTES

**Current Ohio Tax Rate on Other Tobacco Products: 17% of Wholesale Price**

**Current Annual Revenues from Ohio's OTP Tax: Approximately \$29.83 million per year**

It is well established by scientific research and the experiences of numerous states that increasing a state's flat tax on non-cigarette tobacco products would not only raise revenue but also help to reduce tobacco use levels in Ohio, especially among youth – thereby reducing tobacco-caused suffering and death and related health care costs. Put simply, the increased revenues per package of each tobacco product sold would bring in far more new revenue than would be lost by the reductions in tobacco product consumption and sales prompted by the tax increase. The increased percentage-of-price tax will also keep up with inflation and product price increases, producing stable or modestly increasing state revenue levels over time.

<u>New OTP Tax Rate</u>	<u>Increase Amount</u>	<u>Additional New Revenue In Next Year</u>	<u>Consumption Decline</u>	<u>Fewer Youth Users</u>
30%	13%	\$19.5 million	-4.6%	-8.5%
34%	17%	\$25.2 million	-6.0%	-11.1%
55%	38%	\$51.0 million	-13.3%	-24.7%

Revenue projections are conservative, assuming both consumption declines and new tax evasion after rate increase. Projected new revenues are net new revenues above the prior year's revenue total.

### Additional New State Revenues Over Time (in millions of dollars)

<u>New Rate</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>
30%	\$19.5	\$19.8	\$20.1	\$20.4	\$20.7	\$21.1	\$21.4	\$21.7
34%	\$25.2	\$25.6	\$25.9	\$26.3	\$26.7	\$27.1	\$27.5	\$27.9
55%	\$51.0	\$51.8	\$52.6	\$53.4	\$54.2	\$55.0	\$55.8	\$56.6

Projections assume that prices for smokeless tobacco and the other tobacco products will rise each year by three percent while consumption will decline each year by 1.5 percent. Establishing a new minimum tax for the very lowest-priced tobacco products would combat predatory pricing and bring in even more state revenue.

To avoid making less-expensive other tobacco products a gateway to cigarette addiction or an alternative to quitting or cutting back for smokers, it is important that state tax rates on other tobacco products parallel the state's tax rate on cigarettes. For the state's current cigarette tax rate of \$1.25 per pack, the comparable tax rate for other tobacco products would be approximately 55% of wholesale price.

**TFK Factsheet, Benefits From Increasing Smokeless Tobacco Tax Rates,**

<http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf>.

**TFK Factsheet, Spit Tobacco and Other Tobacco Products Besides Cigarettes Should Be Taxed at a Percentage of Wholesale Price,** <http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf>.

**Campaign for Tobacco-Free Kids 02.28.07/ Eric Lindblom, May 7, 2007**

**Additional Sources:** Chaloupka, F, et al., "Public Policy and Youth Smokeless tobacco use," *Southern Economic Journal*, 64(2):503-516, 1997, <http://tiger.uic.edu/~fjc/Presentations/Scans/Final PDFs/sej1997.pdf>. See, also, Chaloupka, F, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research* (2000), and other price studies at <http://tiger.uic.edu/~fjc>. Chaloupka, F & Warner, K, "The Economics of Smoking," in Newhouse, J & Cuyler, AJ (eds.), *The Handbook of Health Economics*, 2000, at 1539-627, <http://tiger.uic.edu/~fjc/Presentations/Papers/handfinal.pdf>; also available as NBER Working Paper, <http://papers.nber.org/papers/w7047>. U.S. Department of Health & Human Services, *Preventing Tobacco Use Among Young People: A Report to the Surgeon General*, 1994, <http://www.cdc.gov/tobacco/sgryth2.htm>. Economic Research Service, USDA, *Tobacco Briefing Room*, <http://www.ers.usda.gov/Briefing/tobacco>. Projections subject to change as updated data and research becomes available. For questions, contact Eric Lindblom, [elindblom@tobaccofreekids.org](mailto:elindblom@tobaccofreekids.org).