



American Heart Association | American Stroke Association

November 12, 2013

Anthony Williams-Chairman, D.C. Tax Revision Commission

1101 4th St., SW, Suite W770

Washington, D.C. 20024

Position: Support Recommendations to Unified Taxation of Tobacco Products

Dear Chairman Williams and Distinguished Committee Members,

On behalf of the American Heart Association and the thousands of volunteers we represent, we appreciate the Commission's leadership regarding tax proposals that include parity of tax on all tobacco products within the District. Cigarette smoking continues to be the leading cause of preventable disease and death in the U.S., claiming approximately 443,000 lives prematurely every year. Smoking not only takes the lives of those who use tobacco, but also those who are exposed to secondhand smoke. Smokeless tobacco has been linked to greater incidence of fatal heart attacks and strokes. The bottom line is that no tobacco product is safe to use.

Smoking costs the U.S. economy more than \$301 billion per year, including workplace productivity losses of \$67.5 billion, premature death at \$117 billion, and direct medical expenditures of \$116 billion. Tobacco control efforts by the American Heart Association have contributed to a decline in U.S. cigarette consumption by nearly 21% since 1998. Despite this progress, 21.3% of men and 16.7% of women in the U.S. still smoke. The outcomes of our efforts have stalled in the last five years, especially for people living below the poverty line and among those with low educational attainment. Smokeless tobacco use is on the rise, is highest in young men between the ages of 18 and 24.

The District has made some significant changes to its tobacco tax system in the last few years. In terms of tax rates, the cigarette tax was last increased by 50 cents to the current rate of \$2.50 per package of 20 in 2008. Prior to 2006, other non-cigarette tobacco products were not subject to any tax. The 12% sales tax was first imposed on non-cigarette tobacco products other than premium cigars and pipe tobacco in 2006, with the Other Tobacco Products Act of 2005. The Fiscal Year 2010 Budget Support Act of 2009 added the 75-cent per ounce weight-based tax on some tobacco products, while increasing the cigarette tax and fixing the cigarette definition.

The current DC tobacco tax system gives an unfair advantage to some tobacco products. It is also a complicated system, requiring knowledge of the differences between certain products (regardless of their package labeling). With the wide array of tobacco products available on the market today, this is a difficult and onerous burden on tax collectors and enforcement agents. In addition, there are some discrepancies in the DC Code that makes it unclear if the 75-cent per ounce tax applies to non-premium cigars or pipe tobacco products.

The District made an improvement to its tax system in 2010 when it fixed the cigarette definition to include so-called "little cigars" that are actually cigarettes. These products were created by cigarette companies to evade cigarette taxes and regulations, and thus expanding the definition ensures that DC collects the appropriate tax owed.

By expanding the definition of OTP to any product “made or derived from tobacco,” excluding tobacco products for medicinal use (like tobacco-cessation products); the tax rate across all tobacco products would be equivalent to the rate on cigarettes. To achieve this, a single excise tax for OTP, which would equal to 80% of wholesale price, will replace the per-ounce excise tax and special 12% sales tax. The 80% rate is equivalent to the tax on cigarettes (if that tax were just a percentage-of-price tax). Collecting OTP taxes at the wholesale level would simplify administration, but the tax rate, similar to the tax on cigarettes, would have to be calculated every year to adjust for price changes.

We strongly suggest that the Commission supports the proposal on other tobacco products for these main reasons:

DC’s current OTP tax system is not effective for economic or public health purposes.

DC’s tax system can be improved through simple measures.

- Correct tax code definitions ✓
- Apply an excise tax rather than a sales tax
- Replace the weight-based tax with a percentage-of-price excise tax
- ✓ Equalize all tobacco excise rates

Fixing DC’s tax system is a win, win, win: Revenue win, fairness win, and public health win.

- Revenue win: long-term, sustainable revenue source
- Fairness win: equalizes tax rates on all tobacco products, will not hurt businesses, NOT a regressive tax
- Public health win: reduces tobacco use, saves lives, and reduces health care costs-this is a proven strategy in reducing rates of use in both adults and youth

Tobacco use is a problem in DC that can be addressed by improving DC’s tobacco tax system – and could be even more successful if revenues were put towards an effective tobacco prevention and cessation program. Thank you again for your time and commitment to this issue. We ask for a favorable vote from the Commission that OTP tax unification be included in final recommendations to the Mayor and City Council.

Respectfully,

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