

ALASKA LEGISLATURE

1599

HOUSE and SENATE FINANCE COMMITTEE FILES, () 1997-1998

Table 2

**Estimated Impact of \$1 State Cigarette Tax Increase
on Local Tax Collections**

City	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	Total
	←-----\$ Thousands-----→						
Anchorage	-1,180	-1,386	-1,594	-1,805	-2,018	-2,030	-10,013
Fairbanks	-145	-170	-196	-222	-249	-250	-1,233
Juneau	-34	-40	-46	-52	-58	-58	-287
Total Local Taxes	-1,359	-1,597	-1,836	-2,079	-2,324	-2,538	-11,523

Military Sales and Bootlegging

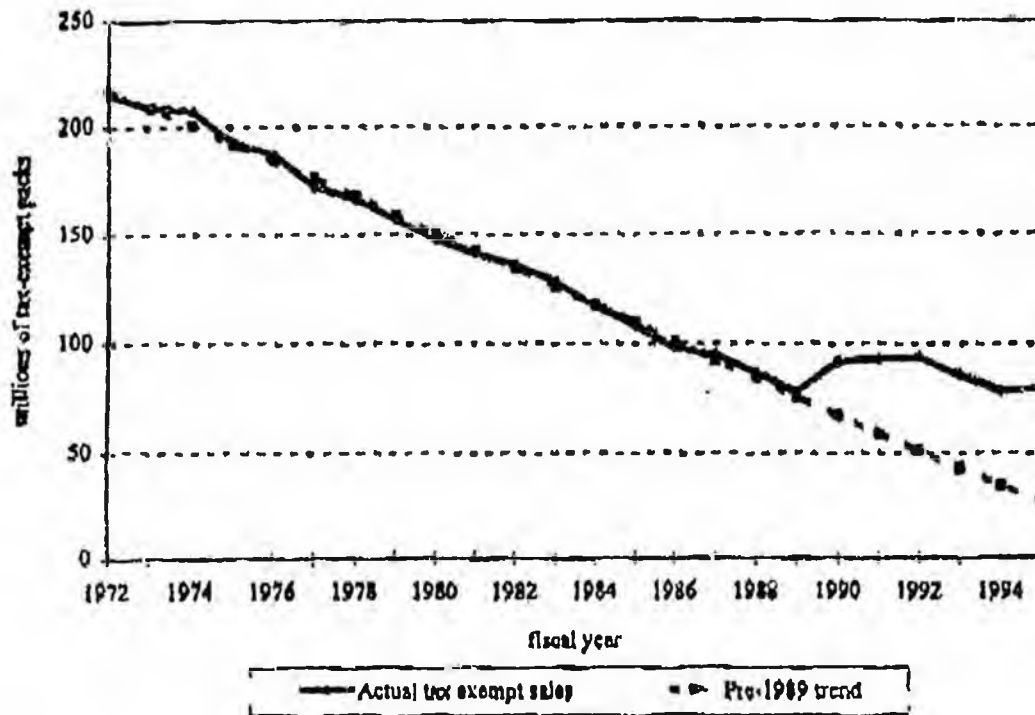
The proposed tax increase would make the combined State plus federal cigarette tax far higher in Alaska than in any other state.¹⁰ Assuming a retail price of \$2 per pack in Alaska, this amounts to a 50 percent increase in the price of cigarettes.¹¹ Consequently, consumers of cigarettes sold in Alaska would have an incentive to reduce their consumption of taxable cigarettes. Some people would do this by smoking less; others would seek nontaxable or lower-priced sources of cigarettes. There are four ways by which lower priced cigarettes may be attained: cross-border purchases, purchases on Indian reservations, purchases on military installations, and retail organized smuggling. Although Alaska has a long border with Canada, two of its major cities (Anchorage and Fairbanks) are not in close proximity to it. Moreover, cigarette taxes in the two bordering jurisdictions (Yukon Territory and British Columbia) would remain higher than in Alaska, even with the proposed tax change. Consequently, there would be little incentive for cross-border retail purchases. Similarly, there is only one Indian reservation in Alaska (tribal land on Annette Island) where State and federal cigarette taxes are not levied. This jurisdiction is relatively small and isolated, and we would not expect it to be a major source of bootlegged cigarettes.

Legal and illegal (bootlegged) sales involving military installations could become an even larger source of cigarettes in the State if the proposed \$1 per package tax increase is enacted. Cigarette purchases at military commissaries and exchanges are exempt from federal and state taxes. Current and retired military personnel and their relatives enjoy tax-free privileges. The prices of cigarettes at military bases are, therefore, much lower,

¹⁰ Washington currently has the highest state cigarette tax rate at 82.5 cents per pack.

¹¹ See The Tobacco Institute, 1995, p. 199 for the average retail price of cigarettes in Alaska.

Figure 2

Tax-Exempt Cigarette Sales in California, 1972-1995¹⁶

In 1989, California more than tripled its cigarette tax from 10 cents to 35 cents per pack, which was the first increase in the State cigarette tax in 22 years. Cigarette sales on military bases in the State jumped 18 percent that year.¹⁷ This increase can be clearly seen in Figure 2. Also notable in Figure 2 is the deviation of actual tax-exempt cigarette sales from the pre-1989 trend. Had the excise tax on cigarettes not been increased in California, it is likely that tax-exempt cigarette sales would have continued to fall, as shown by the trend line.

Even more dramatic was the surge in sales on the two major bases in Michigan following the tripling of Michigan's cigarette tax rate from 25 cents per pack to 75 cents on May 1, 1994. Comparing the period October through April following the tax increase to the same seven-month period immediately before the tax increase, tax-exempt unit sales surged 53 percent on these two bases (Selfridge and K. I. Sawyer).

¹⁶ Source: Annual Report of the Excise Taxes Division of the California State Board of Equalization. "Table 30-B - Cigarette Distributions and Per Capita Consumption 1959-60 and 1994-95," 1996.

¹⁷ See California Department of Revenue, Table 30B. Tax-exempt sales increased from 78 million packs to 92 million packs from 1989 to 1990. This was very unusual, since tax-exempt sales had declined each year since 1972.

and the 345 percent proposed tax increase can be expected to increase the propensity for Alaska residents to purchase their cigarettes through alternative non-taxed means. The pricing policy covering cigarettes sold at military commissaries was changed in November 1996 to be generally consistent with prices charged at military exchanges. No data are yet available indicating the impact of this change in sales of cigarettes at military bases in Alaska.

Although sales to nonfamily civilians are illegal, military personnel might sell bootleg cigarettes to civilians off-base. Indeed, bootlegging appears to be widespread in Alaska and elsewhere. In 1996, approximately 4.7 million cigarette packs were sold on military bases in Alaska.¹² During the same year, taxable unit sales at civilian outlets were 52.7 million packs.¹³ Thus, military sales are approximately 9 percent of taxable sales.¹⁴

The cities of Anchorage and Fairbanks are likely to be more affected by bootlegging than the State as a whole given their proximity to military bases. Anchorage has three military bases within a ten mile radius, and Fairbanks has two military bases within a 30 mile radius.¹⁵

Although it is not possible to estimate exactly the current level of this illegal activity nor to estimate exactly the increase in bootlegging that would occur as a result of this tax increase, experience in other states indicates that cigarette sales on military bases surge after large increases in cigarette excise taxes.

¹² Source: Industrywide Data on Sales. Marketing and Management Information, Inc.

¹³ Source: Alaska Department of Revenue.

¹⁴ These figures are significantly lower than those provided in our previous report. We now understand the data provided to us that were used in the earlier report were in error and should be disregarded.

¹⁵ Source: Evinger, William R., ed. *Directory of U.S. Military Bases Worldwide*, Phoenix: Oryx Press, 1993

those with low incomes will pay a higher percentage of their income on taxes than those with higher incomes. A progressive tax regime has the opposite effect; high income groups pay a larger percentage of their incomes in taxes than do lower income groups.

Consider an Alaska resident who smokes one pack of cigarettes per day. That smoker currently pays \$105.85 in excise taxes per year²⁰. Under the proposed tax increase, that smoker will pay \$470.85 in excise taxes per year — an increase of \$365. This increase will affect those with lower incomes disproportionately. Figure 3 represents this graphically. Clearly, as income increases, the percentage of income spent on these excise taxes approaches zero. The average real personal income in Alaska is \$24,650²¹. Thus, on average, the excise tax of \$470.85 per year represents almost 2 percent of average personal income.

²⁰ 365 days x \$0.29 current taxes = \$105.85.

²¹ \$15.1 billion of total real personal income divided by total population of 612,600 from the WEFA Group, *Regional Forecast Fall 1995*, p. 11,12.

Bootlegging, of course, is not limited to military installations. In the face of cigarette taxes that grew to roughly five times those in the United States, cigarettes smuggled into Canada soared from 1986 to 1994. In one report in 1993, it was estimated that 50 percent of the cigarette volume in the province of Quebec was smuggled.¹⁸

Due to its clandestine nature, it is extremely difficult to measure the responsiveness of illicit trade to a large percentage increase in a State's cigarette tax rate. Nonetheless, there is strong evidence that a 50 percent increase in cigarette prices in Alaska would drive more sales underground; and that the most likely channel for these transactions would involve bootlegging from military installations. If this occurs, it is likely that the elasticity assumptions used in Table 1 (-0.619 short run; -1.033 long run) would be too small. Increasing these elasticities would further reduce the expected net increases in tax revenue from the proposed \$1 per pack tax.

Increased Indian Bootlegging Sales

In November of 1996, the United States Court of Appeals for the Ninth Circuit ruled that the Native Village of Venetie Tribal Government occupies "Indian country."¹⁹ This designation entitles the Native Village of Venetie to the same rights and privileges as other Indian reservations. Currently, no Federal or State excise taxes are levied on Indian reservations. While the implications for other native villages governed under the Alaska Native Claims Settlement Act are unclear and would have to be determined on a case by case basis, this case sets a clear precedent. Clearly, the more locations in which tax-free cigarettes are available, the greater the potential for bootlegging. To the extent that more Alaska Native Villages are ruled to occupy Indian country, the opportunity for increased bootlegging may increase dramatically.

The Regressive Nature of Excise Taxes

In addition to not raising the desired revenues, tobacco excise taxes are regressive in nature. The burden of the Governor's proposed \$1 tax increase will fall disproportionately on those least able to pay it.

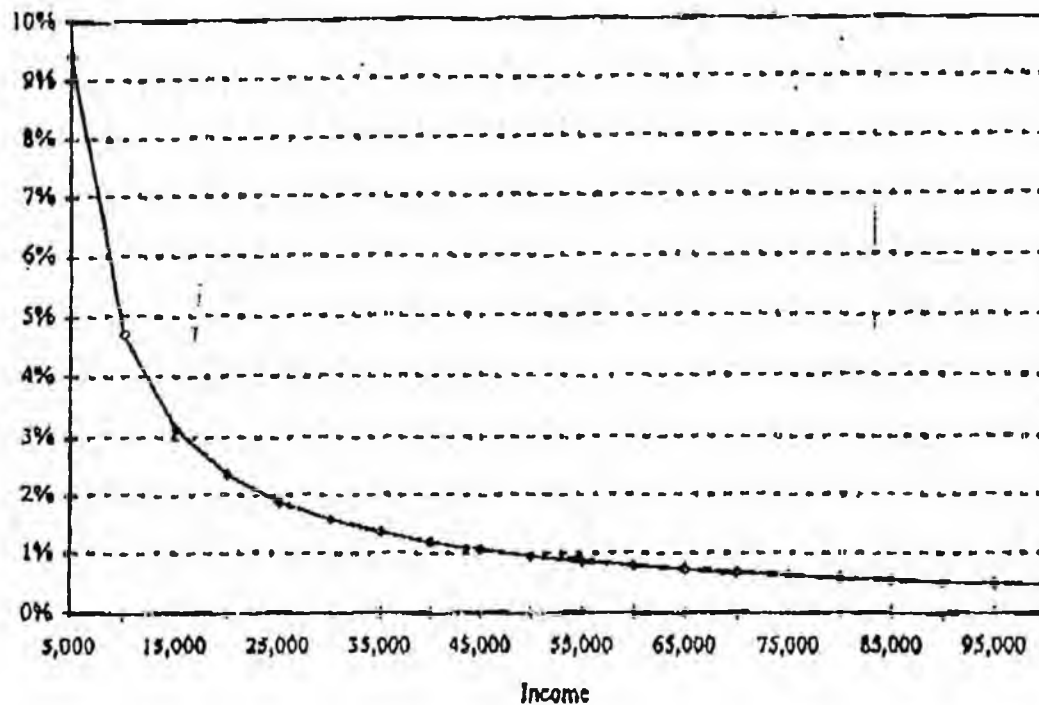
One way to measure the regressivity of a tax system is to look at the relative tax paid by each income group. The burden of a regressive tax will fall more heavily on those with lower incomes than on those with higher incomes. That is, under a regressive tax regime,

¹⁸ See Wall Street Journal, December 8, 1993, and Linqvist, Avey, Macdonald, and Baskerville, 1994.

¹⁹ State of Alaska ex rel Yukon Flats School District, Unalakleet/Neeser Construction JV, Unalakleet Native Corporation, Neeser Construction Company, and Gerald Neeser v. Native Village of Venetie Tribal Government a/k/a The Native Village of Venetie, The Venetie Tax Court, The Venetie Tax Commission, Gideon James, Lawrence Roberts, Larry Williams, Ernest Eriok, Lincoln Trint, John Titus and David Case, 101 F.3d 1286

Figure 3

**Percentage of Income Spent on
Cigarette Excise Taxes by a 1-Pack per Day Smoker
Following the Proposed \$1 Tax Increase**



Price Impact on Non-Smokers

While the State's estimates of the revenue that could be raised by the \$1 per pack tax increase are overstated, the revenue that is raised will have distorting effects on the rest of the State's economy. These effects will cause relative prices to shift in ways that increase the cost of some items and reduce the cost of others. That is, both smokers and non-smokers will be affected by the proposed cigarette tax increase.

If, for example, the demand for cigarettes falls significantly, smokers will use the money no longer spent on cigarettes to buy other goods and services. As the demand for these items increases, their prices will naturally be bid up. In this case, we would also expect the relative price of cigarettes (before tax) to fall. On the other hand, if smokers spend more money on cigarettes, because of the higher after-tax price, they will have less money to spend on other goods and services, which may cause their prices to fall. While the measurement of the magnitude, and even the net direction, of these effects is outside the scope of this report, it is important to understand the basic conclusion that the State tax increase will affect more residents than just those who choose to smoke.

4. CONCLUSION

This report shows that the Department of Revenue overstates the revenue potential of the proposed \$1 per package increase in the State cigarette tax. This is because the Department of Revenue assumes an unrealistically low demand elasticity for cigarettes. The Department of Revenue also does not take into account the tendency for demand elasticities to increase over time. Elasticities are likely to be relatively large (larger than we assume in this report) due to the high accessibility of military bases to the civilian population in Alaska.

We find that the Department of Revenue overstates potential tax revenues from the proposed tax increase by \$5 million (16 percent) in FY 1998, and that this overestimate grows to \$16 million (63 percent) by FY 2003. Consequently, the proposed tax increase would raise less revenue than is estimated by the Department of Revenue. The proposed tax is also likely to increase the illicit trade in cigarettes. By decreasing taxable unit sales in Alaska, the proposal will adversely affect the tax bases of local jurisdictions (Anchorage, Fairbanks, and Juneau) that tax cigarette sales. Over the six year period, these local taxes will decline by approximately \$12 million. This tax increase will also particularly harm those with lower incomes. Because of the regressive nature of tobacco taxes, the proposed increase will adversely affect those State residents least able to afford it. Finally, as smokers change their consumption patterns, relative prices of other goods and services will change with resulting impacts, either positive or negative, on nonsmokers.

TECHNICAL APPENDIX

In order to estimate the change in tax revenue caused by an increase in excise taxes, it is necessary to understand how that increase in excise taxes will affect consumer behavior. Excise taxes are typically shifted forward to the consumer in the form of a price increase, and consumers will react to that increase in price according to their price elasticity of demand for that product. The concept of price elasticity of demand is central to this analysis.

In addition to discussing elasticity of demand, this appendix also discusses the scenarios considered in arriving at the KPMG Barents revenue estimate, the constant and current dollar estimates, a summary of elasticities of demand from various journals, and provides more detailed information on the military bases in Alaska.

1. Elasticity of Demand (E_d)

The elasticity of demand (E_d) is defined as the percentage change in quantity demanded caused by a one-percent change in the consumer price of a commodity. For example, if a one-percent change in the price of a package of cigarettes causes a 0.8 percent decline in the quantity of cigarettes demanded, then the elasticity of demand for cigarettes is -0.8. By definition

$$\Delta Q = E_d[(P + \Delta P)/P - 1]Q$$

or

$$E_d = \frac{\text{Percentage Change in Quantity}}{\text{Percentage Change in Price}}$$

The Department of Revenue assumes that the \$1 increase in State excise taxes would result in an 18.5 percent decline in cigarette consumption. In order to be used in the KPMG Barents model, the percentage decline had to be converted into an effective price elasticity. The price elasticity for the Department of Revenue was calculated so as to be able to duplicate their revenue estimates.

The estimated price of a pack of cigarettes for FY 1997 is \$2.14 and for FY 1998 is \$3.14. The Department of Revenue assume cigarette sales of 52.7 million in FY 1997 and sales of 42.9 in FY 1998. Dividing the percentage change in quantity by the percentage change in price results in an effective price elasticity of -0.4.²²

²² Using the real (i.e., inflation adjusted) prices instead of nominal prices results in an effective price elasticity of -0.427.

Instead of using only the price elasticity of demand used by the Department of Revenue, KPMG Barents uses more appropriate elasticities of demand for both the long-run and the short-run. The elasticities chosen are based on elasticities reported in studies of cigarette demand in professional, peer reviewed journals.

2. Scenarios of Appendix Table A-1

Scenario (1), the KPMG Barents estimate, shows the transition from the short run to the long run, after price changes caused by inflation have been removed and changing consumer preferences are recognized. We assume that the transition from the short run to the long run occurs over five years, so that by FY 2002 the revenue impact is identical to that in long-run Scenario (2c). Similarly, the initial revenue impact in FY 1998 in the KPMG Barents estimates is assumed to equal the FY 1998 revenue value for short-run Scenario (3c).

Scenarios (2a), (2b), and (2c) derive the long-run net new revenues generated from a \$1 per pack increase in the State cigarette tax. For each year, we assume that the long-run demand elasticity of -1.033 applies to the change in cigarette prices. Scenario (2a) shows the long-run revenue impact of the \$1 proposed tax increase. (2b) shows the tax revenue impact of changes in demand without the tax increase. Scenarios (3a), (3b), and (3c) perform the same analysis using a short-run demand elasticity of -0.619.

Scenarios (4a) through (4c) represent models similar to those used by the Department of Revenue and use a price elasticity of -0.4. The overestimates caused by the Department of Revenue's misspecifications are found by subtracting the KPMG Barents estimate (Scenario 1) from Department of Revenue Scenario (4c). The amount of overestimation is also indicated in the table as Scenario (5).

5. Appendix Table A-2

Appendix Table A-2 is a summary of cigarette price elasticities dating from 1933 to the present. The studies reflect a variety of methodologies, but all are studies of the demand for cigarettes. KPMG Barents chose to use averages of those elasticities cited in the peer reviewed journal articles for this study.

6. Appendix Table A-3

Appendix Table A-3 is a summary of information from the Directory of U.S. Military Bases Worldwide edited by William R. Evinger in 1995. It clearly illustrates the proximity of many Alaskan military bases to the large population centers.

APPENDIX TABLE A-1

Scenarios (cig. tax rev., mil.):	1998	1999	2000	2001	2002	2003
1. KPMG Barents' estimate	31.39	31.94	29.31	26.72	24.17	24.60
Assumed short-run to long-run elasticity phase-in rate	0	25%	50%	75%	100%	100%
2a. \$1 state tax increase; E=-1.033	35.11	38.05	38.56	39.07	39.60	40.13
2b. No state tax increase; E=-1.033	15.02	15.13	15.23	15.33	15.43	15.53
2c. #1a minus #1b (netting out long-run price effects)	20.09	22.92	23.33	23.75	24.17	24.60
3a. \$1 state tax increase; E=-.619	46.52	50.14	50.54	50.94	51.36	51.77
3b. No state tax increase; E=-.619	15.13	15.19	15.25	15.31	15.37	15.43
3c. #2a minus #2b (netting out short-run price effects)	31.39	34.95	35.29	35.54	35.99	36.34
4a. \$1 state tax increase; E=-.4	51.81	55.39	55.39	55.39	55.39	55.39
4b. No state tax increase; E=-.4	15.28	15.28	15.28	15.28	15.28	15.28
4c. State of Alaska's revenue impact estimate:	36.53	40.11	40.11	40.11	40.11	40.11
5. Overestimate (compared to baseline, #1):	5.14	8.17	10.80	13.39	15.94	15.51
Percentage overestimate:	16%	26%	37%	50%	66%	63%

APPENDIX TABLE A-2
SUMMARY OF STUDIES OF CIGARETTE PRICE ELASTICITIES OF DEMAND

Author	Year	Type of analysis	Time Period	Price Elasticity
Schoenberg	1933	Time-series Ordinary least squares	1923-1951	-0.25 and -0.68
Stene	1945	Time-series Ordinary least squares	1929-1941	-0.39
U.S. Treasury Dept.	1948	Time-series	1929-1943	-0.01
Rockwell	1948	Time-series	1927-1941	-0.03
Tennant	1950	Time-series Ordinary least squares	1913-1945	inelastic
Federal Reserve Bank of Richmond	1952	Time-series	1929-1948	-0.66
Maier	1955	Cross-section Each year estimated separately	1947-1951	-0.31 to -1.48
Sackrin	1962	Time-series	1926-1958	-0.3 to -0.4
Koutsoumzis	1963	Time-series Aggregate tobacco consumption international results	1950-1959	-0.026 to -0.951
Vernon, et al.	1967	Time-series 19 equation econometric model of the tobacco industry	1949-1966	-0.43

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Author	Year	Type of analysis	Time Period	Price Elasticity
Bontricker and Taylor	1970	Cross-section Three-pass least squares	1964-1967	-0.54
Miller	1970	Time-series	1949-1968	-0.89
Laughum and Lyon	1971	pooled Bayesian regression	1950-1968	-0.81
Mann	1971	Time-series	1949-1969	-0.84
Hamilton	1972	Cross-section Ordinary least squares	1954-1965	-0.51
Schmalensee	1972	Time-series Ordinary least squares	1947-1967	-0.32 (short-run) -1.1 (long-run)
Schnabel	1972	Time-series Ordinary least squares	1949-1963	-0.85
Sixton	1974	Time-series	1950-1972	-0.45
Warner	1977	Time-series	1947-1970	-0.511
Ippolito, Dennis and Sand	1979	Time-series Cochrane-Orcutt procedure	1925-1925	-0.81
Lewit and Coate	1980	Cross-section Ordinary least squares	1976	-0.4
Fujii	1980	Time-series Ridge regression	1929-1973	-0.48

Author	Year	Type of analysis	Time Period	Price Elasticity
Schneider, Klein and Murphy	1981	Time-series	1930-1978	-1.2
Young	1983	Time-series Ridge regression	1929-1973	-0.33 to -0.34
Sumner and Alston	1984	Time-series Generalized least squares	1946-1983	-0.29
Sullivan	1985	Panel Generalized least squares	1955-1982	-0.66
Baltagi and Levin	1986	Panel Hausman-Taylor estimation	1963-1980	-2.215
Porter	1986	Time-series Two stage least squares	1947-1982	-0.05 to -0.29
Baltagi and Goel	1987	Time-series Quasi-experimental method	1956-1983	-0.114 to -0.917
Kao and Tremblay	1988	Time-series Two stage least squares	1953-1980	-0.50 to -1.0
Russo	1989	Cross-section Tobit maximum likelihood	1980	-0.57
Chaloupka	1991	Time-series Two stage least squares	1976-1980	-0.37 to -0.27

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Author	Year	Type of analysis	Time Period	Price Elasticity
Wasserman et al.	1991	Time-series Generalized linear model	1975-1985	-0.283 to 0.059
Keeler, Ha and Barrett	1991	Time-series Full information maximum likelihood with instrumental variables	Jan. 1980 - Jan. 1990	-0.35 (pretax) -0.65 (posttax)
Becker, Grossman, and Murphy	1994	Time-series of state Cross-sections Two-stage least squares	1955-1985	-0.734 to -0.788 (Long-Run) -0.355 to -0.436 (Short-Run)
Franke	1994	Time-series Logarithmic ordinary least squares and two stage least squares	1961-1990	-0.368 to -0.547
Reckie	1994	Time-series Logarithmic and linear ordinary least squares	1970-1989	-0.877
Townsend, Roderick, and Cooper	1994	Time-series Multiple regression analysis	1972-1990	-0.5 (men) -0.6 (women)
Saba, Beard, Ekelund, and Pessler	1995	Time-series for Cross-section of states Nonlinear least squares estimation	1950-1986	-1.30

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Author	Year	Type of analysis	Time Period	Price Elasticity
Tremblay and Tremblay	1995	Time-series Two stage least squares and weighted two stage least squares	1955-1990	-0.404 to -0.429 -0.706 to -0.745 (1990)

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APPENDIX TABLE A-3
ACTIVE MILITARY BASES IN ALASKA

Name of Base	Location	Active Duty Personnel	Dependents	Civilian Personnel
Adak Naval Air Station	On Adak Island in Andreanof Islands of Aleutian Chain; approximately 1220 miles from Anchorage.	650	2%	238
Adak Naval Security Group Activity	On Adak Island in Andreanof Islands, approximately 1200 air miles South West of Anchorage.	600	450	25
Elmendorf Air Force Base	North side of Anchorage city limits.	7,000	13,000	2,400
Kotzeb Air National Guard Base	At Anchorage IAP off Raspberry Road, approximately 5 miles from downtown.	1,200		245
Farockson Air Force Base	Remote Air Force Base, 1500 miles South West of Anchorage at westernmost tip of the Aleutian Islands.	550		25
Eielson Air Force Base	26 miles South East of Fairbanks on Richardson Highway.	2,786	4,439	1,498
Fort Greely	105 miles South of Fairbanks on Richardson Highway.	500	300	100
Fort Richardson	Approximately 8 miles North of Anchorage on Glenn Highway.	4,400	5,600	1,570
Fort Wainwright	Approximately 0.25 miles from Downtown Fairbanks	5,000	6,700	1,150
17th Coast Guard District Headquarters	In Federal Building in downtown Juneau	233		36
Ketchikan Coast Guard Base/Group	In South East Alaska, 1 mile South of Ketchikan on Revillagigedo Island; not accessible by road.	250		25
King Salmon Airport	727 miles just West of Aleutian range approximately 250 miles South West of Anchorage; 0.5 miles from Town of King Salmon. Not Accessible by ground transportation.	190		17
Kodiak Coast Guard Support Center	North East corner of Kodiak Island, 7 miles South of Kodiak.	1,100	1,500	62
Tatalina Air Force Station	Approximately 230 air miles North West of Anchorage; 150 miles West of Mt. McKinley.			10
Total		24,559	32,189	7,393

Note: Anchorage Naval Reserve Center with no reported personnel has been excluded from this table.

Source: Evinger, William R., ed. Directory of U.S. Military Bases Worldwide, Phoenix: Dryx Press, 1995.

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Withdraw

0-LS0001\B.1
Chenoweth
2/25/97

#1

A M E N D M E N T

OFFERED IN THE HOUSE

TO: CSHB 1(HES)

By Rep. Gene Theriault

1 Page 4, following line 13:

2 Insert a new bill section to read:

3 **"* Sec. 9. FLOOR STOCK TAXES.** (a) There is imposed on every person engaged in
4 business in this state as a distributor of cigarettes a floor stock tax. The floor stock tax is
5 imposed once on the cigarettes that are in the person's possession or under the person's
6 control at 12:01 a.m. on the date that is the effective date of this section. The tax is imposed
7 at the rate required under AS 43.50.090(a), as amended by sec. 1 of this Act, less any tax
8 paid or owed on the same product under AS 43.50.010 - 43.50.190 at the rate in effect on
9 the date before the effective date of this section.

10 (b) There is imposed on every person engaged in business in this state as a distributor
11 of tobacco products other than cigarettes a floor stock tax. The floor stock tax is imposed
12 once on those tobacco products that are in the person's possession or under the person's
13 control at 12:01 a.m. on the effective date of this section. The tax is imposed at the rate
14 required under AS 43.50.300, as amended by sec. 6 of this Act, less any tax paid or owed
15 on the same product under AS 43.50.300 - 43.50.390 at the rate in effect on the date before
16 the effective date of this section.

17 (c) The provisions of AS 43.05 and AS 43.10 apply to the administration,
18 enforcement, and collection of the floor stock tax levied by this section.

19 (d) The Department of Revenue shall adopt regulations as necessary to implement
20 this section.

21 (e) In this section,

22 (1) the definitions of AS 43.50.170 apply to (a) of this section; and

23 (2) the definitions of AS 43.50.390 apply to (b) of this section."

24 Renumber the following bill sections accordingly.

1 Page 4, line 24:

2 Delete "sec. 9"

3 Insert "sec. 10"

4 Page 4, line 30:

5 Delete "and 7"

6 Insert "7, and 9"

7 Page 4, line 31:

8 Delete "sec. 9"

9 Insert "sec. 10"

Adopted

#2

AMENDMENT

By Rep. Grove thereicault

OFFERED IN THE HOUSE
TO: CSHB 1(HES)

1 Page 1, line 8, following "deducting":

2 Insert "⁴~~three-tenths~~ of"

3 Page 2, line 10, following "deducting":

4 Insert "three-tenths of"

5 Page 4, following line 12:

6 Insert a new bill section to read:

7 "* Sec. 8. AS 43.50.330(b) is amended to read:

8 (b) The licensee shall remit with the return the tax due under AS 43.50.300
9 for the month covered by the return, after deducting ⁴~~three-tenths~~ of one percent of
10 the tax due, which the licensee shall retain to cover the expense of accounting and
11 filing the return."

12 Renumber the following bill sections accordingly.

13 Page 4, line 14:

14 Delete "and 8"

15 Insert "and 9"

16 Page 4, line 24:

17 Delete "sec. 9"

18 Insert "sec. 10"

19 Page 4, line 30:

- 1 Delete "and 7"
- 2 Insert "7, and 8"

3 Page 4, line 31:

- 4 Delete "and 8"
- 5 Insert "and 9"
- 6 Delete "sec. 9"
- 7 Insert "sec. 10"

Failed

0-LS0001\B.6
Chenoweth
2/26/97

#3

AMENDMENT

By Rep Therrault

OFFERED IN THE HOUSE
TO: CSHB 1(HES)

1 Page 1, line 4, through page 3, line 11:

2 Delete all material and insert:

3 **** Section 1.** AS 43.50.090(a) is amended to read:

4 (a) There is levied an excise tax of 38 [TWO AND ONE-HALF] mills on
5 each cigarette imported or acquired in the state. Each licensee shall, at the time of
6 filing the return required by AS 43.50.080, pay to the department the excise for the
7 calendar month covered by the return, deducting one per cent of the total tax due,
8 which the licensee shall retain to cover the expense of accounting and filing returns.
9 Cigarettes upon which the excise is imposed are not again subject to the excise when
10 acquired by another person.

11 *** Sec. 2.** AS 43.50.090(a) is amended to read:

12 (a) There is levied an excise tax of two and one-half [38] mills on each
13 cigarette imported or acquired in the state. Each licensee shall, at the time of filing
14 the return required by AS 43.50.080, pay to the department the excise for the calendar
15 month covered by the return, deducting one per cent of the total tax due, which the
16 licensee shall retain to cover the expense of accounting and filing returns. Cigarettes
17 upon which the excise is imposed are not again subject to the excise when acquired
18 by another person.

19 *** Sec. 3.** AS 43.50.190(a) is amended to read:

20 (a) There is levied an excise tax of 47 1/2 [12] mills on each cigarette
21 imported or acquired in this state."

22 Renumber the following bill sections accordingly.

23 Page 3, line 22, through page 4, line 22:

1 Delete all material and insert:

2 **** Sec. 5. CONDITIONAL EFFECT OF SECTIONS 2 AND 3.** Sections 2 and 3 of this
3 Act take effect only if

4 (1) a court enters a final judgment that the amendment made to
5 AS 43.50.090(a) by sec. 1 of this Act changing the rate of taxation on cigarettes
6 violates the prohibition set out in art. IX, sec. 7, Constitution of the State of Alaska,
7 against dedication of the proceeds of a state tax or license; and

8 (2) either the time for appeal of that judgment expires or, if an appeal
9 is taken, the court enters a final order on appeal that AS 43.50.090(a), as amended by
10 sec. 1 of this Act, violates art. IX, sec. 7, Consitution of the State of Alaska."

11 Renumber the following bill sections accordingly.

12 Page 4, line 24:

13 Delete "and 4"

14 Insert "and 3"

15 Delete "sec. 9"

16 Insert "sec. 5"

17 Page 4, line 25:

18 Delete "and 4"

19 Insert "and 3"

20 Page 4, line 29:

21 Delete "sec. 4"

22 Insert "sec. 3"

23 Page 4, line 30:

24 Delete "1, 3, 6, and 7"

25 Insert "1 and 4"

26 Page 4, line 31:

- 1 Delete "secs. 2, 4, 5, and 8"
- 2 Insert "secs. 2 and 3"
- 3 Delete "sec. 9"
- 4 Insert "sec. 5"

Withdrawn

0-LS0001\B.4
Chenoweth
2/26/97

#4

AMENDMENT

OFFERED IN THE HOUSE
TO: CSHB 1(HES)

Representative John Davies

- 1 Page 4, following line 12:
- 2 Insert a new bill section to read:
- 3 **** Sec. 8.** AS 43.50.390(4) is amended to read:
- 4 (4) "tobacco product" means
- 5 (A) a cigar;
- 6 (B) a cheroot;
- 7 (C) a stogie;
- 8 (D) a perique;
- 9 (E) snuff and snuff flour;
- 10 (F) smoking tobacco, including granulated, plug-cut, crimp-cut,
- 11 ready-rubbed, and any form of tobacco suitable for smoking in a pipe or
- 12 cigarette;
- 13 (G) chewing tobacco, including cavendish, twist, plug, scrap,
- 14 and tobacco suitable for chewing; or
- 15 (H) an article or product made of tobacco or a tobacco
- 16 substitute, but not including a cigarette as defined in AS 43.50.170 or nicotine
- 17 transdermal systems and nicotine resin complexes:"

- 18 Renumber the following bill sections accordingly.

- 19 Page 4, line 14:
- 20 Delete "and 8"
- 21 Insert "and 9"

- 22 Page 4, line 24:

1 Delete "sec. 9"

2 Insert "sec. 10"

3 Page 4, line 30:

4 Delete "and 7"

5 Insert "7, and 8"

6 Page 4, line 31:

7 Delete "and 8"

8 Insert "and 9"

9 Delete "sec. 9"

10 Insert "sec. 10"

filed

AMENDMENT

5

OFFERED IN THE HOUSE
TO: CSHB 1(HES)

By Rep. Therriault

- 1 Page 1, line 4, through page 3, line 11:
- 2 Delete all material and insert:
- 3 **** Section 1.** AS 43.50.090(a) is amended to read:
- 4 (a) There is levied an excise tax of 52 1/2 [TWO AND ONE-HALF] mills on
- 5 each cigarette imported or acquired in the state. Each licensee shall, at the time of
- 6 filing the return required by AS 43.50.080, pay to the department the excise for the
- 7 calendar month covered by the return, deducting one per cent of the total tax due,
- 8 which the licensee shall retain to cover the expense of accounting and filing returns.
- 9 Cigarettes upon which the excise is imposed are not again subject to the excise when
- 10 acquired by another person.
- 11 *** Sec. 2.** AS 43.50.090(a) is amended to read:
- 12 (a) There is levied an excise tax of two and one-half [52 1/2] mills on each
- 13 cigarette imported or acquired in the state. Each licensee shall, at the time of filing
- 14 the return required by AS 43.50.080, pay to the department the excise for the calendar
- 15 month covered by the return, deducting one per cent of the total tax due, which the
- 16 licensee shall retain to cover the expense of accounting and filing returns. Cigarettes
- 17 upon which the excise is imposed are not again subject to the excise when acquired
- 18 by another person.
- 19 *** Sec. 3.** AS 43.50.190(a) is amended to read:
- 20 (a) There is levied an excise tax of 62 [12] mills on each cigarette imported
- 21 or acquired in this state."
- 22 Renumber the following bill sections accordingly.
- 23 Page 3, line 22, through page 4, line 22:

1 Delete all material and insert:

2 **** Sec. 5. CONDITIONAL EFFECT OF SECTIONS 2 AND 3.** Sections 2 and 3 of this
3 Act take effect only if

4 (1) a court enters a final judgment that the amendment made to
5 AS 43.50.090(a) by sec. 1 of this Act changing the rate of taxation on cigarettes
6 violates the prohibition set out in art. IX, sec. 7, Constitution of the State of Alaska,
7 against dedication of the proceeds of a state tax or license; and

8 (2) either the time for appeal of that judgment expires or, if an appeal
9 is taken, the court enters a final order on appeal that AS 43.50.090(a), as amended by
10 sec. 1 of this Act, violates art. IX, sec. 7, Consitution of the State of Alaska."

11 Renumber the following bill sections accordingly.

12 Page 4, line 24:

13 Delete "and 4"

14 Insert "and 3"

15 Delete "sec. 9"

16 Insert "sec. 5"

17 Page 4, line 25:

18 Delete "and 4"

19 Insert "and 3"

20 Page 4, line 29:

21 Delete "sec. 4"

22 Insert "sec. 3"

23 Page 4, line 30:

24 Delete "1, 3, 6, and 7"

25 Insert "1 and 4"

26 Page 4, line 31:

- 1 Delete "secs. 2, 4, 5, and 8"
- 2 Insert "secs. 2 and 3"
- 3 Delete "sec. 9"
- 4 Insert "sec. 5"

faint

#6

AMENDMENT

OFFERED IN THE HOUSE
TO: CSHB 1(HES)

By Rep. Theriault

- 1 Page 1, line 13:
- 2 Delete "52 1/2 mills"
- 3 Insert "38 mills"

- 4 Page 1, line 14:
- 5 Delete "64 1/2 mills"
- 6 Insert "50 mills"

- 7 Page 2, line 1:
- 8 Delete "76 1/2 mills"
- 9 Insert "62 mills"

- 10 Page 2, line 3:
- 11 Delete "76 1/2 mills"
- 12 Insert "62 mills"

- 13 Page 2, line 15:
- 14 Delete "52 1/2 MILLS"
- 15 Insert "38 MILLS"

- 16 Page 2, lines 16 - 17:
- 17 Delete "64 1/2 MILLS"
- 18 Insert "50 MILLS"

- 19 Page 2, lines 18 - 19:

- 1 Delete "76 1/2 MILLS"
- 2 Insert "62 MILLS"

- 3 Page 2, line 20:
- 4 Delete "76 1/2 MILLS"
- 5 Insert "62 MILLS"

- 6 Page 3, line 2:
- 7 Delete "62 mills"
- 8 Insert "47 1/2 mills"

- 9 Page 3, line 3:
- 10 Delete "74 mills"
- 11 Insert "59 1/2 mills"

- 12 Page 3, line 4:
- 13 Delete "86 mills"
- 14 Insert "71 1/2 mills"

- 15 Page 3, line 5:
- 16 Delete "86 mills"
- 17 Insert "71 1/2 mills"

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF REVENUE

INCOME AND EXCISE AUDIT
P. O. BOX 110420
JUNEAU, AK 99811-0420
FAX. (907) 465-2375

February 26, 1997

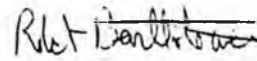
The Honorable Gene Therriault
Alaska State Legislature
State Capital, Room 511
Juneau, Alaska 99801

Dear Chairman Therriault:

You have asked us to respond to the question "are nicotine gum or patches subject to the tobacco products tax"? AS 43.50.390 (4) provides the definition of tobacco products. These particular products do not meet the definitions listed. Current industry practice and the Department of Revenue's position is that nicotine gum and patches are not subject to the state's tobacco tax.

Please let me know if you require additional information.

Sincerely



Robert N. Bartholomew
Assistant Director

97-17

AMEND. TO # 1

~~115~~
DAVIES

p 1 line 20 after section:

insert "including, if necessary, a transitional provision delaying the date all or part of the tax may be due!"

CS FOR HOUSE BILL NO. 1(HES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

Offered: 2/14/97

Referred: Finance

Sponsor(s): REPRESENTATIVES BUNDE, Ivan, Croft, Porter, Hudson

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to taxes on cigarettes and tobacco products; and providing for
2 an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 43.50.090(a) is amended to read:

5 (a) There is levied an excise tax [OF TWO AND ONE-HALF MILLS] on each
6 cigarette imported or acquired in the state. Each licensee shall, at the time of filing
7 the return required by AS 43.50.080, pay to the department the excise for the calendar
8 month covered by the return, deducting one percent of the total tax due, which the
9 licensee shall retain to cover the expense of accounting and filing returns. Cigarettes
10 upon which the excise is imposed are not again subject to the excise when acquired
11 by another person. The excise tax is levied at the following rates:

12 (1) on and after the effective date of this bill section and through
13 June 30, 2000 - 52 1/2 mills;

14 (2) after June 30, 2000, and through June 30, 2003 - 64 1/2 mills;

1 (3) after June 30, 2003, and through June 30, 2006 - 76 1/2 mills;

2 and

3 (4) after June 30, 2006 - 76 1/2 mills plus an additional 12 mills
 4 during each succeeding three-year period. the increase to be effective on the first
 5 day of the succeeding three-year period.

6 * Sec. 2. AS 43.50.090(a) is amended to read:

7 (a) There is levied an excise tax of two and one-half mills on each cigarette
 8 imported or acquired in the state. Each licensee shall, at the time of filing the return
 9 required by AS 43.50.080, pay to the department the excise for the calendar month
 10 covered by the return, deducting one percent of the total tax due, which the licensee
 11 shall retain to cover the expense of accounting and filing returns. Cigarettes upon
 12 which the excise is imposed are not again subject to the excise when acquired by
 13 another person. [THE EXCISE TAX IS LEVIED AT THE FOLLOWING RATES:

14 (1) ON AND AFTER THE EFFECTIVE DATE OF THIS BILL
 15 SECTION AND THROUGH JUNE 30, 2000 - 52 1/2 MILLS;

16 (2) AFTER JUNE 30, 2000, AND THROUGH JUNE 30, 2003 - 64 1/2
 17 MILLS;

18 (3) AFTER JUNE 30, 2003, AND THROUGH JUNE 30, 2006 - 76 1/2
 19 MILLS; AND

20 (4) AFTER JUNE 30, 2006 - 76 1/2 MILLS PLUS AN ADDITIONAL
 21 12 MILLS DURING EACH SUCCEEDING THREE-YEAR PERIOD, THE
 22 INCREASE TO BE EFFECTIVE ON THE FIRST DAY OF THE SUCCEEDING
 23 THREE-YEAR PERIOD.]

24 * Sec. 3. AS 43.50.090 is amended by adding a new subsection to read:

25 (d) At the time of a change in the amount of tax under (a) of this section, the
 26 department shall give public notice of the change. The department shall also provide
 27 notification of the change to all persons licensed under this chapter.

28 * Sec. 4. AS 43.50.190(a) is amended to read:

29 (a) On [THERE IS LEVIED AN EXCISE TAX OF 12 MILLS ON] each
 30 cigarette imported or acquired in this state, there is levied an excise tax at the
 31 following rates:

1 (1) on and after the effective date of this bill section and through
 2 June 30, 2000 - 62 mills;

3 (2) after June 30, 2000, and through June 30, 2003 - 74 mills;

4 (3) after June 30, 2003, and through June 30, 2006 - 86 mills; and

5 (4) after June 30, 2006 - 86 mills plus an additional 12 mills during
 6 each succeeding three-year period, the increase to be effective on the first day of
 7 the succeeding three-year period.

8 * Sec. 5. AS 43.50.190 is amended by adding a new subsection to read:

9 (c) At the time of a change in the amount of tax under (a) of this section, the
 10 department shall give public notice of the change. The department shall also provide
 11 notification of the change to all persons licensed under this chapter.

12 * Sec. 6. AS 43.50.300 is amended to read:

13 **Sec. 43.50.300. Excise tax levied.** An excise tax is levied on tobacco products
 14 in the state at the rate of 100 [25] percent of the wholesale price of the tobacco
 15 products. The tax is levied when a person

16 (1) brings, or causes to be brought, a tobacco product into the state
 17 from outside the state for sale;

18 (2) makes, manufactures, or fabricates a tobacco product in the state
 19 for sale in the state; or

20 (3) ships or transports a tobacco product to a retailer in the state for
 21 sale by the retailer.

22 * Sec. 7. AS 43.50.300 is amended by adding new subsections to read:

23 (b) The amount in (a) of this section changes, as provided in (b) - (d) of this
 24 section, according to and to the extent of changes in the Consumer Price Index for all
 25 urban consumers for the Anchorage Metropolitan Area compiled by the Bureau of
 26 Labor Statistics, United States Department of Labor. The index for January of 1998
 27 is the reference base index.

28 (c) The amount changes on July 1 of each even-numbered year in an amount
 29 equal to the percentage of change, calculated to the nearest whole percentage point,
 30 between the index for January of that year and the most recent index used to change
 31 the amount in (a) of this section. However, the amount does not change if the amount

1 required by (b) - (d) of this section is that currently in effect as a result of earlier
2 application of (b) - (d) of this section.

3 (d) If the index is revised, the percentage of change is calculated on the basis
4 of the revised index. If a revision of the index changes the reference base index, a
5 revised reference base index is determined by multiplying the reference base index
6 applicable by the rebasing factor furnished by the Bureau of Labor Statistics, United
7 States Department of Labor. If the index is superseded, the index referred to in (b) -
8 (d) of this section is the one represented by the Bureau of Labor Statistics as reflecting
9 most accurately changes in the purchasing power of the dollar for Alaska consumers.

10 (e) At the time of a change in the amount of the tax under this section, the
11 department shall promptly give public notice of the change. The department shall also
12 provide notification of a change to all persons licensed under this chapter.

13 * **Sec. 8.** AS 43.50.090(d), added by sec. 3 of this Act, is repealed.

14 * **Sec. 9. CONDITIONAL EFFECT OF CERTAIN SECTIONS.** Sections 2, 4, 5, and 8
15 of this Act take effect only if

16 (1) a court enters a final judgment that the amendment made to
17 AS 43.50.090(a) by sec. 1 of this Act changing the rate of taxation on cigarettes violates the
18 prohibition set out in art. IX, sec. 7, Constitution of the State of Alaska, against dedication of
19 the proceeds of a state tax or license; and

20 (2) either the time for appeal of that judgment expires or, if an appeal is taken,
21 the court enters a final order on appeal that AS 43.50.090(a), as amended by sec. 1 of this
22 Act, violates art. IX, sec. 7, Constitution of the State of Alaska.

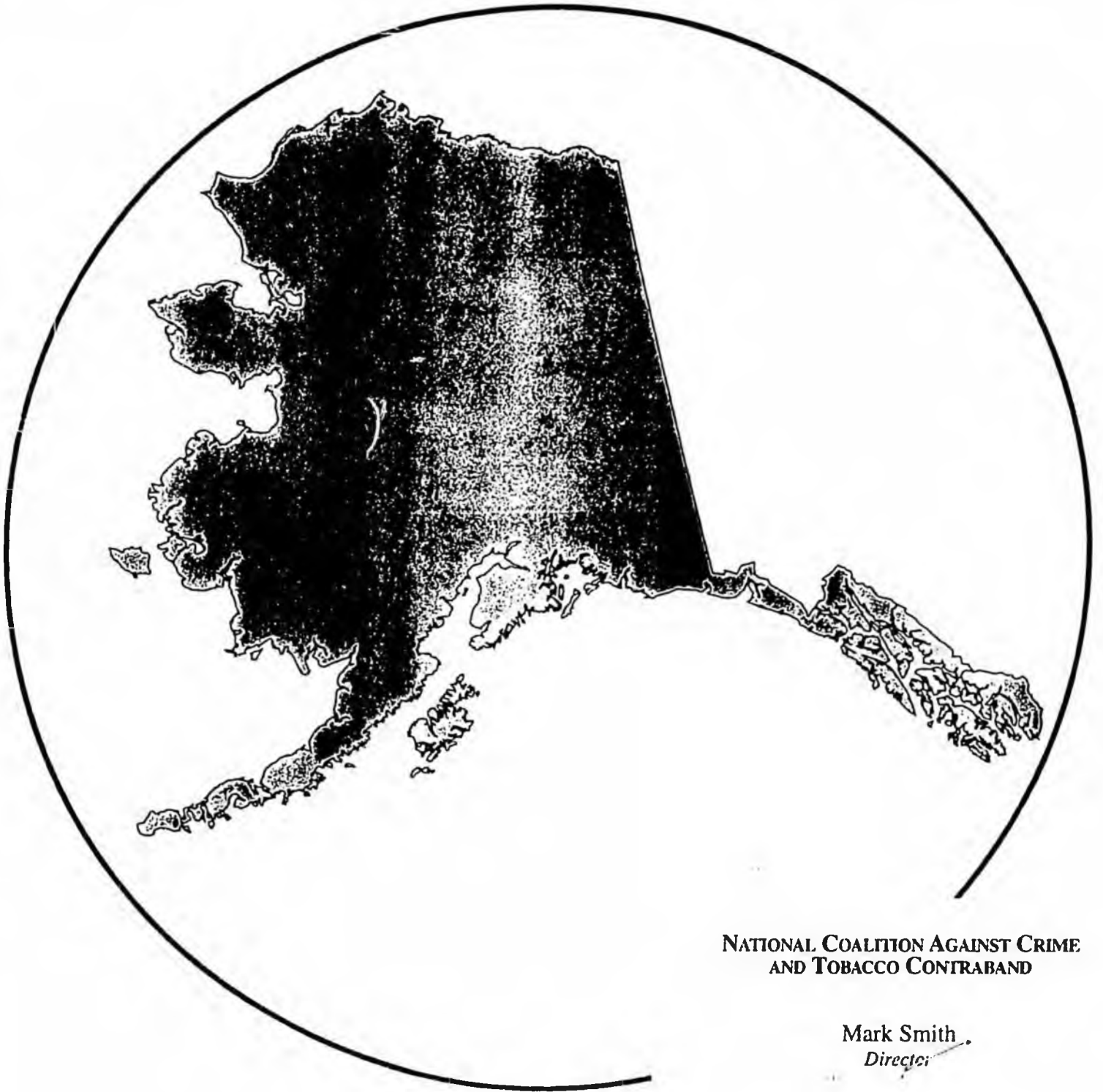
23 * **Sec. 10. CONDITIONAL RETROACTIVITY OF CERTAIN PROVISIONS.** If secs. 2
24 and 4 of this Act take effect under sec. 9 of this Act, then the amendments to AS 43.50.090(a)
25 and 43.50.190(a) made by secs. 2 and 4 of this Act are retroactive to October 1, 1997, and
26 the revenue derived from the levy of mills per cigarette of the tax levied under
27 AS 43.50.090(a), as amended by sec. 1 of this Act, for cigarettes sold after October 1, 1997,
28 that exceeds two and one-half mills shall be credited to the tax levied under AS 43.50.190(a),
29 as amended by sec. 4 of this Act.

30 * **Sec. 11.** Sections 1, 3, 6, and 7 of this Act take effect October 1, 1997.

31 * **Sec. 12.** If secs. 2, 4, 5, and 8 of this Act take effect under sec. 9 of this Act, they take

1 effect on the later of (1) the date a court enters a final judgment that the amendment made to
2 AS 43.50.090(a) by sec. 1 of this Act changing the rate of taxation on cigarettes violates the
3 prohibition set out in art. IX, sec. 7, Constitution of the State of Alaska, against dedication of
4 the proceeds of a state tax or license, and (2) the expiration of any time for appeal of that
5 judgment, or, if an appeal is taken, upon entry of a final order on the appeal that
6 AS 43.50.090(a), as amended by sec. 1 of this Act, violates art. IX, sec. 7, Constitution of the
7 State of Alaska. The attorney general shall promptly notify the lieutenant governor and the
8 revisor of statutes of a judgment described in this section.

Impact of Alaska Cigarette Tax



NATIONAL COALITION AGAINST CRIME
AND TOBACCO CONTRABAND

Mark Smith
Director

601 Pennsylvania Ave., NW • Suite 900
Washington, DC 20004

(202) 434-8179

copy on file

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Raise Alaska's Cigarette Tax?

ALREADY AT THE EDGE

Given the emergence of a major underground black market for cigarettes in both the U.S. and Canada -- and particularly in jurisdictions that raise taxes well above the average -- Alaskan officials should carefully consider the *unintended consequences* of raising the current cigarette tax.⁽¹⁾

→ Facts are 7-8% of sales!

Current Cigarette Market -- 45% From Military Bases (No Taxes)

Alaska already is well on its way to becoming a tax-avoidance market. According to a recent study by independent accounting firm Peat Marwick for the *Alaska Cabaret, Hotel, Restaurant and Retail Association*, 45% of all cigarettes in Alaska are purchased tax-free on military bases.⁽²⁾ Even as deep discounts on cigarettes are ending at military commissaries, many Alaskans will continue to save more than \$6 a carton -- simply by buying tax-free cigarettes from military bases.⁽³⁾

With nearly half the market already consuming tax-free cigarettes, raising the cigarette tax would only make the situation worse. Based on what has happened elsewhere when cigarette taxes were raised, it is reasonable to consider that Alaska would suffer the following consequences:

Unintended Consequences of a Tax Hike:

1. A significant shift of Alaska's remaining 55% taxable share of the market to the U.S. Military market -- significantly reducing state revenues over what would normally be projected;⁽⁴⁾
2. Creation of a huge incentive for smugglers seeking illegal profits, with corrupting influence on both consumers and the existing military markets as illegal distribution schemes flourish; and an increase in street crime as cigarettes become more costly due to the high tax;⁽⁵⁾ and
3. An increase in youth smoking rates as illegal sources of tax-free cigarettes become more readily available (as documented by Canada), as smugglers and suppliers of illegally distributed cigarettes from Military bases do not ask for age identification.⁽⁶⁾

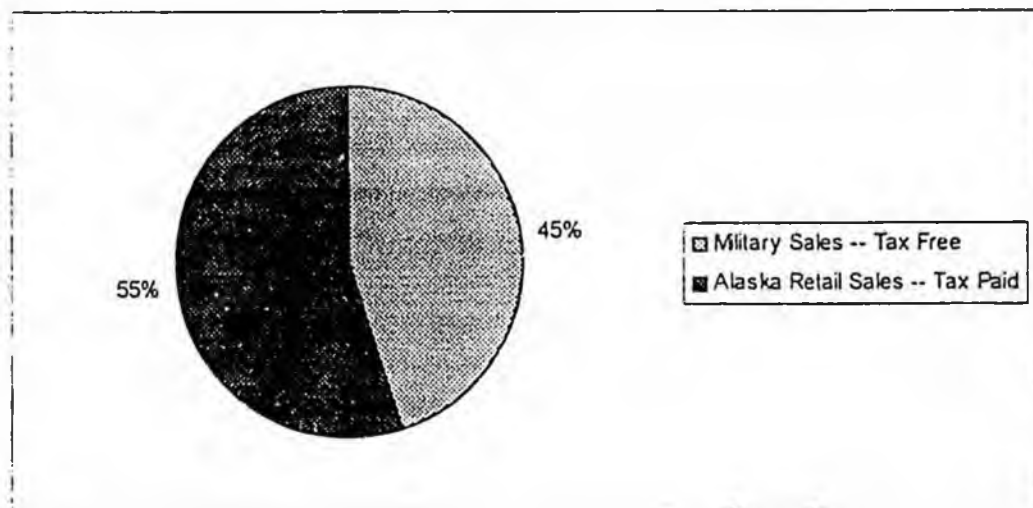
The Tax-Free Military Market

Military stores are tax-exempt, collecting no state taxes. With more than 56,000 military personnel in Alaska, including retirees and dependents, the opportunity to buy cigarettes tax free at the bases is great -- and could become an even greater source for tax-free cigarettes in the future.⁽⁷⁾ Although sales to non-family civilians are illegal, military personnel can, and are, selling bootleg cigarettes to civilians off-base. A tax increase will only make the situation worse.⁽⁸⁾

Key Factors:

- 50% of the entire civilian population is concentrated in Anchorage, Juneau and Fairbanks and can easily travel to a military base.
- Alaska has 14 military installations
- More than 10% of the entire Alaskan population lives or works on a military base: 24,559 active military personnel, 32,189 dependents and 7,393 civilian employees.⁽⁹⁾

Current Alaska Cigarette Sales:



According to the studies, approximately 45% of all cigarettes consumed in Alaska are obtained through a military base. This means that no Alaska state cigarette tax is paid and no local cigarette taxes are paid. Meanwhile, just 55% of all cigarettes consumed in Alaska are purchased at off-base retail stores.⁽¹⁰⁾

Military Influence

One reason for the high cigarette sales volume at military installations in Alaska is the relatively *high* ratio of military personnel-to-resident population:⁽¹¹⁾

Alaska: 4.2%

military-to-resident
population ratio

USA: 0.5%

military-to-resident
population ratio

Military Sales Soar When States Raise Cigarette Tax

When states increase the cigarette tax sales on military bases rise, often dramatically.

- California: 18% increase in military sales
- Michigan: 53% increase in military sales⁽¹²⁾

When California raised its state cigarette tax 25 cents a pack in 1989, military cigarette sales jumped 18% that year. When Michigan raised its cigarette tax 50 cents a pack, sales on the two major military bases in the state surged 53%.

WARNING: "FLASHPOINT"

For most of the state's population, Alaska already exceeds the dangerous "flashpoint" at which illegal smuggling is triggered. The U.S. Congress' Advisory Commission on Intergovernmental Relations first determined in 1977 that smuggling is caused by a wide disparity in the price of cigarettes in various jurisdictions. A 1985 study by this group concluded that a 23-cent difference (now 35 cents with inflation) between states creates an opportunity for organized smuggling. For a carton of cigarettes, the "flashpoint" for encouraging wide-spread cross border sales and outright smuggling is triggered when consumers can save more than \$3.50 a carton. Alaska already exceeds the flashpoint with its abundance of tax-free military bases readily available to most citizens.

Alaska's Tax Already Far Exceeds "Flashpoint"

<u>Location</u>	+ <u>Retails' Price</u>	+ <u>State + Local Taxes</u>	= <u>Total Cost</u>
Anchorage*	\$14.80	\$2.90 + \$2.70	\$20.40
Fairbanks	\$14.80	\$2.90 + \$1.00	\$18.70
Juneau	\$14.80	\$2.90 + \$.90	\$18.60
Alaska-other	\$14.80	\$2.90	\$17.70

...in competition with...

Alaska	\$14.80	- 0 -	<u>\$14.80</u>
Military**			

TOTAL TAX AVOIDANCE: \$5.60

* State tax of 29 cents a pack, or \$2.90 for a carton of 10 packs, plus the local tax in Anchorage (27 cents a pack, or \$2.70 a carton), Fairbanks (10 cents a pack, \$1 a carton) or Juneau (9 cents a pack, or 90 cents a carton).

** Cigarette sales on Alaska Military bases account for about 45% of all cigarettes sold in Alaska. Excise taxes are not collected on Military Bases, nor in Native American smoke shops or duty-free stores. Note that the \$14.80 per carton includes the federal cigarette tax of 24 cents a pack, or \$2.40 for a carton.

Lessons Learned From Canada, Michigan, Washington

Alaskan elected officials might ask, "Where else have cigarette taxes been raised," and, more importantly, "What was the experience there?"

There is no doubt that the elected officials who proposed major cigarette tax increases in Michigan, Washington State and Canada meant well. Essentially, they wanted to raise some additional revenue, and discourage behavior that they believed to be harmful. Unfortunately, they are now living with the legacy of the unintended consequences of the high tax:

Case Studies

- Michigan: cigarette taxes raised to 75 cents per pack -- store break-ins surge; sales down 30 percent; Detroit Free Press declares smuggling epidemic. People don't quit smoking; they simply turn to **the underground market that is flourishing**. Some legislators begin calling for a tax rollback to end the flow of crime.⁽¹³⁾
- Washington State: cigarette taxes raised to 82.5 cents -- sales down 20 percent; Indian sales way up; officials establish task force to stem flood of smuggled products; *many retailers and wholesalers fear for the future of their businesses.*⁽¹⁴⁾
- Canada: high cigarette taxes lead to national crisis...Canada's Prime Minister says: "*Smuggling is threatening the safety of our communities and the livelihood of law-abiding merchants. It is a threat to the very fabric of Canadian society.*" On Feb. 9, 1994, cigarette taxes were slashed and smuggling was effectively eliminated. With no underground market to take stolen goods, smuggling-related store robberies and break-ins almost ceased entirely.⁽¹⁵⁾

More Than Lost Business & Revenue -- More Crime

More than a two years after increasing its cigarette taxes, Michigan is reeling from a smuggling epidemic. In a major front page story, the Detroit Free Press describes the situation this way: "*Michigan's higher tobacco tax has spawned rampant cigarette smuggling that's siphoned millions of tax dollars from the state treasury, while lighting up huge profits for traffickers.*"⁽¹⁶⁾

With cigarette sales now down more than 30 percent in the state, and the underground market now developed, thieves have a quick and profitable place to fence their stolen cigarettes. Many retailers are reporting a record number of break-ins. According to the Associated Press, those who suffer include not only retailers who lose revenues, but local law-enforcement, which now has another major crime element to deal with.⁽¹⁷⁾

Tempting Profits For Organized Crime

The current price difference between Alaska and its many military bases and ports of entry make the state an appealing proposition for illegal cigarette traffickers.

- For a smuggler, that represents a potential profit of \$200,000 or more for just one truck-container load. Just a regular van could bring a smuggler a quick \$20,000 profit.⁽¹⁾
- Every tax-evaded cigarette obtained in Alaska from a military base means a loss of 29-cents per pack to the state government in excise taxes, (plus a loss of local cigarette taxes in Alaska's major cities), a loss of 8 cents per pack in state sales taxes, a loss in income taxes to the state from retailers and their employees from the loss in legal sales, higher costs for crime prevention and law enforcement, and a loss to Alaska as a whole as more and more people find it acceptable to evade what they consider unfairly high taxes.
- California example: With a hard-to-control border with Mexico and a growth of organized crime dealing with diverting cigarettes meant for export, California's illegal cigarette market now exceeds 20 percent -- or one of every five cigarettes is being purchased illegal. California's tax? Just 37 cents a pack. But enough for the criminal element to get involved in the illegal distribution of cigarettes.⁽²⁾ What's worse, smugglers don't ask for age identification. Kids now have greater access to cigarettes.

Notes

1. Sources: Cigarette tax evasion -- August 1995 presentation to Federation of Tax Administrators, tobacco tax conference, Chicago, by Robert L. Shepherd, deputy commissioner, Office of Tax Enforcement, New York State Department of Taxation & Finance. Specific cigarette smuggling studies: "Cigarette Smuggling in the United States," a report on a three-month investigation, led by former Rodney Stamler, former assistant commissioner of the Royal Canadian Mounted Police, Lindquist Avey, Macdonald, Baskerville (Forensic Financial Investigators), August 1994.
2. Alaska cigarette tax study -- December 11, 1995, by Barents Group LLC of KPMG Peat Marwick LLP, Washington, D.C. for the Alaska Cabaret, Hotel, Restaurant and Retail Association. Military data from military scanning audits -- 45 million packs. Tax-paid sales according to Alaska revenue department data were 53.6 for a total of 98.6 million packs. Note that the military sales percentage and total number of packs could be much higher because data scanning were not completed at Elmendorf Air Force Base.
3. Alaska's state cigarette tax is 29 cents a pack (\$2.90 a carton). The Anchorage local cigarette tax is 27 cents a carton (\$2.70 a carton). Fairbanks is 10 cents a pack (\$1 a carton), Juneau is 9 cents a pack (90 cents a carton). The state sales tax, calculated after all other taxes are paid, is 4%. Consumers

who obtain cigarettes via Military Bases pay no state and local taxes. Savings range from \$6.41 (Anchorage) to as low as \$3.61 per carton.

4. Alaska cigarette tax study -- December 11, 1995, by Barents Group LLC of KPMG Peat Marwick LLP, Washington, D.C. for the Alaska Cabaret, Hotel, Restaurant and Retail Association.
5. The U.S. Congress' Advisory Commission on Intergovernmental Relations first determined in 1977 that smuggling is caused by a wide disparity in the price of cigarettes in various jurisdictions. A 1985 study by this group concluded that a 23-cent difference (now 35 cents with inflation) between states creates an opportunity for organized smuggling. For a carton of cigarettes, the "flashpoint" for encouraging wide-spread cross border sales and outright smuggling is triggered when consumers can save more than \$3.50 a carton. Alaska already exceeds the flashpoint with its abundance of tax-free military bases readily available to most citizens.
6. Despite new evidence, many anti-smoking advocates still maintain that raising tobacco taxes reduces consumption of cigarettes -- most notably, they believe, among young people. They base their case on surveys by health institutions, academia and economists who consistently fail to include evidence about the changing nature of the American marketplace, evidence which shows the extent to which consumers are avoiding higher taxes. An analysis of new research conducted by both public and private organizations since 1994 suggests that the practice of raising tobacco taxes leads to no overall reduction in smoking -- and in fact actually increases youth access to tobacco products:

"The Survey on Smoking in Canada," conducted by Statistics Canada on behalf of Health Canada (Canadian Federal Government), Tobacco Demand Reduction Strategy, 1994-1995; Maclean's news magazine, February 21, 1994, p.16, coverage of Canada's cigarette tax rollback effort to reduce smuggling, interviews with Canadian Health Minister Diane Marleau; "Cigarette Tax Evasion in New York State," August 1995 presentation to Federation of Tax Administrators, tobacco tax conference, Chicago, Robert L. Shepherd, deputy commissioner, Office of Tax Enforcement, New York State Department of Taxation & Finance; "Cigarette Smuggling in the United States," a report on three-month investigation, Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), August 1994; "Smuggling in the State of Michigan," Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), October 1995; "Smuggling in Western United States," Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), October 1996.

7. Source: Evinger, William R., ed. Director of U.S. Military Bases Worldwide, Phoenix: Oryx Press, 1995.
8. Source: Alaska cigarette tax study -- December 11, 1995, by Barents Group LLC of KPMG Peat Marwick LLP, Washington, D.C. for the Alaska Cabaret, Hotel, Restaurant and Retail Association: "Currently the 56,748 residents of Alaskan military bases purchase an average of 793 non-taxed packs of cigarettes per year. This compares with only 96 taxable packs per year purchased from local businesses by the States 556,000 non-military residents. Average per capita consumption in Alaska is 161 packs per year. This implies that residents of Alaskan military bases would be expected to smoke a total of 9.1 million packs of cigarettes a year, and that the remaining 35.9 million packs were purchased legally and, therefore, taxed, the State would raise an additional \$10.4 million in tax revenues each year at the current \$0.29 rate. In addition to the \$10.4 million of lost State revenue, the municipal governments of Anchorage, Fairbanks, and Juneau are also, in effect, losing revenue. With the proposed tax increase, more cigarette purchases are likely to occur through bootlegging, causing the State and local governments to lose even more revenues.

9. Source: Evinger, William R., ed. Director of U.S. Military Bases Worldwide, Phoenix: Oryx Press, 1995.
10. Alaska cigarette tax study -- December 11, 1995, by Barents Group LLC of KPMG Peat Marwick LLP, Washington, D.C. for the Alaska Cabaret, Hotel, Restaurant and Retail Association. Military data from military scanning audits -- 45 million packs. Tax-paid sales according to Alaska revenue department data were 53.6 for a total of 98.6 million packs. Note that the military sales percentage and total number of packs could be much higher because data scanning were not completed at Elmendorf Air Force Base.
11. Source: Statistical Abstract of the United States, 1992.
12. Source: California and Michigan revenue departments.
13. Detroit Free Press, Feb. 17, 1995.
14. "Cigarette Smuggling in Oregon," a report on a three-month investigation, led by Rodney Stamler, former assistant commissioner of the Royal Canadian Mounted Police, Lindquist Avey, Macdonald, Baskerville (Forensic Financial Investigators), October 25, 1996 (includes investigation of Washington State and California). Source for statements by retail community: Washington State Association of Neighborhood Stores, public legislative hearings, November 1995.
15. Toronto Globe & Mail, Feb. 9, 1994, coverage of Canada's cigarette tax rollback.
16. Detroit Free Press, Feb. 17, 1995.
17. Associated Press (Michigan), Dec. 12, 1994.
18. An 18-wheeled tractor-trailer-container can hold 765,000 packs of cigarettes. If purchased with no state excise taxes on a military base, or through a legal Free Trade Zone, or legally at a tax-free Indian smoke shop, or through any number of illegal tax-free means, the tax savings if sold in Alaska -- at the current tax rate -- would be \$221,850 (765,000 packs X 29 cents tax per pack). After expenses, it is reasonable to expect this operation would net a profit of at least \$200,000 per truck load. A simple van could clear \$20,000.
19. "Cigarette Smuggling in Oregon," a report on a three-month investigation, led by Rodney Stamler, former assistant commissioner of the Royal Canadian Mounted Police, Lindquist Avey, Macdonald, Baskerville (Forensic Financial Investigators), October 25, 1996 (includes investigation of Washington State and California).

###

ALASKA:

Tax Savings Per Carton On Cigarettes Purchased
Through Tax-Free, Military-Base Channels

**Alaska Non-
Metropolitan Areas**

\$290

savings per carton through
military-base channels

Fairbanks

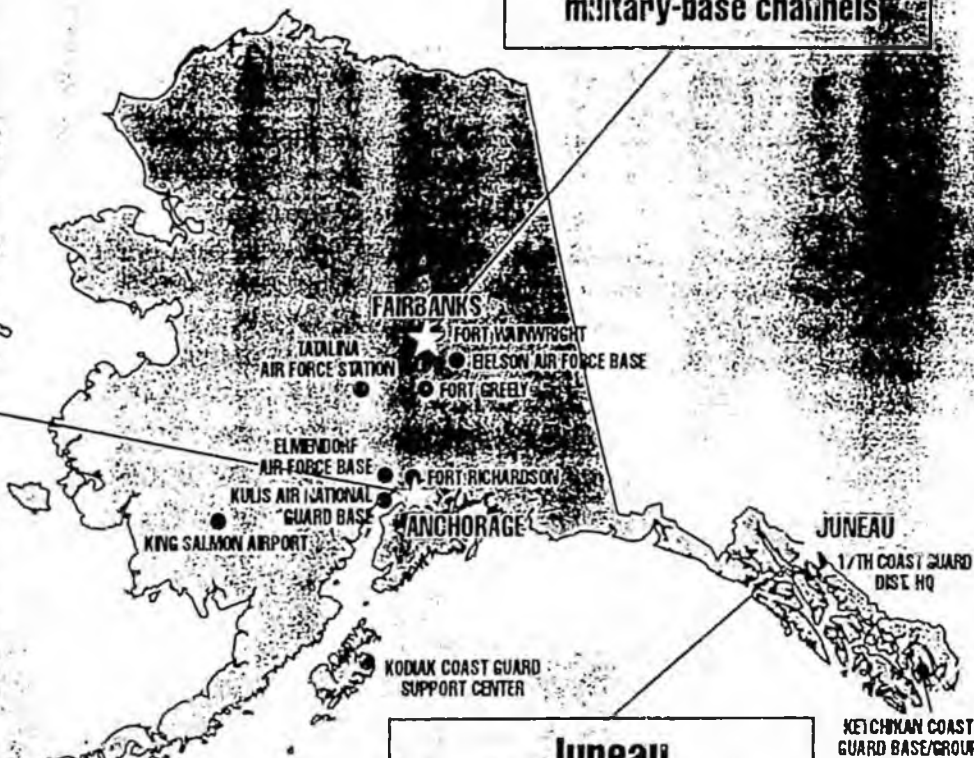
\$390

savings per carton through
military-base channels

Anchorage

\$560

savings per carton through
military-base channels



Juneau

\$380

savings per carton through
military-base channels

Current Alaska Cigarette Sales

45%

Military-Tax Free

55%

Retail-Tax Paid

100%

Total Sales

New Research Sheds Light On Tobacco Tax Issue

Despite new evidence, many anti-smoking advocates still maintain that raising tobacco taxes reduces consumption of cigarettes -- most notably, they believe, among young people. They base their case on surveys by health institutions, academia and economists who consistently fail to include evidence about the changing nature of the American marketplace, evidence which shows the extent to which consumers are avoiding higher taxes. (1)

An analysis of new research conducted by both public and private organizations since 1994 suggests that the practice of raising tobacco taxes leads to no overall reduction in smoking -- and in fact actually increases youth access to tobacco products. (2)

As policy makers discover the extent of the growing problem with contraband tobacco in America -- tax-evaded cigarettes brought into a jurisdiction in ways ranging from casual cross-border excursions to sophisticated international organized crime rings -- the case for raising tobacco taxes needs to be reconsidered. Especially in light of the outdated assumptions currently put forth by anti-smoking advocates.

#1. *Old Assumption*: "Higher Tax Means Fewer Smokers"

"Higher excise taxes on cigarettes would significantly reduce the number of youth who smoke." (3) And, "Pricing policy is perhaps the single most important element of an overall comprehensive strategy to reduce tobacco use, and particularly to reduce tobacco use among children." (4)

New Evidence: Higher Tax Encourages Smuggling

With higher taxes, people don't smoke less, they simply change their buying patterns - to purchase low-cost brands, to cross the border for lower tax products, or to turn to the underground market. (5) Smuggled, tax-free or tax-evaded cigarettes are readily available in most markets, especially in states that have raised the cigarette tax. One of every four cigarettes, 25% of the entire market, in Michigan has been smuggled; in California and Washington State, it is estimated that 20% of each market is tax evaded; in New York, one of every five, or 20% of all cigarettes are sold illegally. (6) According to an October 1996 study by the independent Washington-based Tax Foundation. "Cross-border shopping for cigarettes (to avoid high taxes) increased an astounding 454% between 1980 and 1994, while cigarette smuggling increased 295% during the same period." (7)

#2. *Old Assumption: Lowering The Tax Means More Smokers*

"If the 50% cut in the price of cigarettes that went into effect (February 1994) in Quebec is implemented across the country, it would cause at least 840,000 more people to start smoking -- 175,000 of them teenagers." According to a study by Robert Allen, a visiting professor at Harvard University. (9)

Background: After years of practicing a high-tax tobacco policy, Canada faced a crisis in 1994. More than one-third of its entire cigarette market was smuggled. Canada's Prime Minister said, "Smuggling is threatening the safety of our communities and the livelihood of law abiding merchants. It is a threat to the very fabric of society. On Feb. 9, 1994, cigarette taxes were slashed and smuggling was effectively eliminated. (9)

New Evidence: Tax Cuts Eliminated Smuggling & Access By Youth

In the year following massive cuts in cigarette taxes in Canada, official national surveys by the Canadian Health Department found that the tax cut did not encourage more smoking. The surveys found that "Overall there has been no substantial change in the smoking behavior of Canadians... It found that "the prevalence for the 15-19 year old age group remained essentially unchanged throughout the four (survey) cycles, fluctuating between 29 and 26%. For those aged 20-24, however, the figures demonstrate a decline from 40% in May 1994 to 34% in February 1995. This represents a net decrease of 110,000 smokers." (10)

When cigarette taxes were reduced, smoking did not increase. Conversely, when cigarette taxes were increased in years running up the smuggling crisis, smoking did not decrease. Smokers avoided the high tax by buying smuggled cigarettes. In terms of youth smoking, Canadian Health Minister Diane Merleau said that the government's decision to cut taxes would actual reduce consumption among youngsters. "It will end the smuggling trade and force children to rely on regular stores for their cigarettes -- where they will be forbidden to buy them until they turn 19. In that way, consumption among teenagers can be more readily controlled and will likely drop," she said. (11)

**#3. Old Assumption: Economic models
can project how high taxes lowers smoking**

As cited in Coalition on Smoking OR Health Fact Sheet, "Tobacco Taxes and Kids,"
"For every 10% increase in cigarette prices, studies find a 12-14% decrease in youth
consumption." (12)

The implication is that there is a simple formula for reducing smoking. That all policy
makers have to do to reduce tobacco use, especially among young people, is to
simply raise the cigarette tax.

***New Evidence:* 1) Actual market information, 2) legal sales data, and
3) Government consumption data point to major smuggling**

Economic models are only as good as the information available at the time. The
trouble with many of these economic projections is that they are based on "tax-
reported sales" and not on actual consumption. Yes, "legal" tax-paid sales may drop
12-14% with such as increase in taxes. But, with higher taxes, people are not
smoking less, they simply buy over the border or turn to the underground market to
avoid the high tax -- none of which is considered by the economic models.

For example, an analysis of New York Revenue Department data show that the per
capita legal, tax-paid sales of cigarettes in New York is 70.5 packs a year. But
studies by the U.S. Centers' for Disease Control indicates that per capita consumption
in New York is 97.4 packs, which is just slightly above the national average. Where
are the missing packs coming from? Answer: New Yorkers purchase them illegally.
The numbers indicate that today, nearly 27 percent of New York's entire cigarette
market is contraband -- sales that have avoided New York State's high cigarette
tax. (13)

What it means: When taxes rise, smuggling and illegal distribution networks infiltrate
the marketplace. With inexpensive, tax-free cigarettes available, few people quit
smoking because of higher prices. And, unfortunately with cigarettes being sold
illegally in the street and out of the trunks of cars, kids have greater access to
smuggled products -- and smugglers don't ask for age-identification. (14)

#4. *Old Assumption: The Answer Is To Raise Cigarette Taxes And Give Revenue to "Tobacco Control" Advocates*

"Results from several U.S. states...that have levied a significant tobacco excise tax show that cigarette consumption decreases when an excise tax is part of a comprehensive tobacco control program...After California passed a 25-cents per pack tax in 1989 and earmarked the revenue for education and prevention, smoking prevalence decreased 17 %." (15)

The message to elected officials is this: Raising the tax "*solves the problem.*" But earmarking the new cigarette tax revenue and giving it to tobacco control advocates "*really solves the problem.*"

New Evidence: tax hikes encourage major underground markets; "tobacco control" has had little impact

Prop 99 was a 1988 California ballot measure that raised the state cigarette tax by 250 percent. Since its inception, more than \$750 million in new cigarette tax revenue has been provided for anti-smoking education campaigns, the hiring of tobacco control personnel and a statewide advertising campaign to educate the public about tobacco. Those involved with the program claim that the combination of higher taxes and "*tobacco control efforts*" have resulted in consumption of cigarettes to drop by more than 27 percent since Prop 99 passed. (16)

Smoking has declined in California. But it has declined everywhere else, not just in California. Since the 1988 passage of Prop 99, smoking has declined about 15.1 percent nationally. It may be reasonable to assume that had there been no cigarette tax increase and the Prop 99 tobacco education programs it paid for, the decline in health-conscious California would have been at least 15 percent. (17) But now new evidence also suggests that the "decline in smoking" above the national average in California may not be a decline at all, but a diversion to the **illegal underground market**.

Data from the California Board of Equalization do show a major decline -- about 27 percent -- but what has been measured is only a decline in legally purchased, tax-paid cigarettes. What has not been considered until now is the underground market that has developed since Prop 99. With revenue department officials now (1995) estimating that as **much as 7 percent to 18 percent** of the entire cigarette market has gone underground, it is probable that smoking has not declined in California beyond the national average. Other experts say the smuggling rate has grown to between 20-25%. (18)

The Case For Raising Tobacco Taxes

Does raising the cigarette tax encourage kids to quit smoking, or discourage them from starting? No, not if one looks at the evidence, especially at investigative studies that show what is really happening in the market place. But it doesn't take expensive studies or exhaustive analysis. One of the best sources of information on youth smoking is the federal government. A look at Government-reported youth smoking incidence (the percentage of kids smoking cigarettes) collected from *the 1993 and 1995 Youth Risk Behavior Surveys by the U.S. Centers for Disease Control* clearly indicates that tax increases did not decrease youth smoking rates. In fact, the Government studies show that in some states that raised cigarette taxes, the percentage of kids that are smoking actually increased:⁽¹⁹⁾

From the Centers For Disease Control Data Survey, 1993-1995

- **Illinois:** Legislators in May 1993 raised the state cigarette tax more than 45%. Following the tax increase the incidence of youth smoking increased more than 22%, according to the Centers for Disease Control.⁽²⁰⁾
- **Hawaii:** The state increased its cigarette tax to 60 cents a pack, one of the highest in the nation. What do federal government statistics show? Between 1993 and 1995, the percentage of kids smoking actually went up 14.9%.⁽²¹⁾
- **Nebraska:** Cigarette taxes were increased more than 25% in July 1993. In the two years following that tax hike, the percentage of youth smoking increased 11.3%.⁽²²⁾

Notes:

1. "Growing Up Tobacco Free: Preventing Nicotine Addiction in Children and Youths," Institute of Medicine, National Academy of Sciences, September, 1994; Frank J. Chaloupka and Michael Grossman, "Price, Tobacco Control Policies and Youth Smoking," presentation to the 71st Annual Conference of the Western Economic Association International, July 1, 1996; J. Wasserman, et. al., "The Effects of Excise Taxes and Regulations on Cigarette Smoking," Journal of Health Economics, 1991, Vol. 10, p. 43-65; E.M. Lewit and D. Coate, "The Potential for Using Excise Taxes to Reduce Smoking," Journal of Health Economics, 1982, p. 121-145.

-- continued --

2. "The Survey on Smoking in Canada," conducted by Statistics Canada on behalf of Health Canada (Canadian Federal Government), Tobacco Demand Reduction Strategy, 1994-1995; Maclean's news magazine, February 21, 1994, p.16, coverage of Canada's cigarette tax rollback effort to reduce smuggling, interviews with Canadian Health Minister Diane Marleau; "Cigarette Tax Evasion in New York State," August 1995 presentation to Federation of Tax Administrators, tobacco tax conference, Chicago, Robert L. Shepherd, deputy commissioner, Office of Tax Enforcement, New York State Department of Taxation & Finance; "Cigarette Smuggling in the United States," a report on three-month investigation, Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), August 1994; "Smuggling in the State of Michigan," Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), October 1995; "Smuggling in Western United States," Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), October 1996.
3. Frank J. Chaloupka and Michael Grossman, "Price, Tobacco Control Policies and Youth Smoking," presentation to the 71st Annual Conference of the Western Economic Association International, July 1, 1996, using the University of Michigan's "Monitoring the Future" data from the years 1992-1994.
4. "Growing Up Tobacco Free: Preventing Nicotine Addiction in Children and Youths," Institute of Medicine, National Academy of Sciences, September, 1994.
5. "Dramatic Rise in Cigarette Smuggling -- Disparity in State Cigarette Excises Leads to Rise in Cross-Border Activities," The Tax Foundation, October 1996.
6. "Cigarette Tax Evasion in New York State," August 1995 presentation to Federation of Tax Administrators, tobacco tax conference, Chicago, Robert L. Shepherd, deputy commissioner, Office of Tax Enforcement, New York State Department of Taxation & Finance; "Cigarette Smuggling in the United States," a report on three-month investigation, Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), August 1994; "Smuggling in the State of Michigan," Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), October 1995; "Smuggling in Western United States," Lindquist Avey Macdonald Baskerville (Forensic Financial Investigators), October 1996.
7. "Dramatic Rise in Cigarette Smuggling -- Disparity in State Cigarette Excises Leads to Rise in Cross-Border Activities," The Tax Foundation, October 1996.
8. Study, Robert Allen, visiting professor of economics, Harvard University, January 1994, as reported in Maclean's news magazine, February 21, 1994, p. 14, coverage of Canada's cigarette tax rollback effort to reduce smuggling.
9. Toronto Globe & Mail, February 9, 1994, coverage of Canada's cigarette tax rollback; Maclean's news magazine, February 1994, coverage of Canada's cigarette tax rollback effort to reduce smuggling.
10. "The Survey on Smoking in Canada," conducted by Statistics Canada on behalf of Health Canada (Canadian Federal Government), Tobacco Demand Reduction Strategy, 1994-1995.
11. Maclean's news magazine, February 21, 1994, p.16, coverage of Canada's cigarette tax rollback effort to reduce smuggling, interviews with Canadian Health Minister Diane Marleau.

-- continued --

12. As cited in Coalition on Smoking OR Health Fact Sheet, "Tobacco Taxes and Kids," 1994.
13. Data sources: New York State Revenue Department, 1995 reports on tax-paid sales of cigarettes; Consumption data: U.S. Centers for Disease Control, 1992-1993 (most recent data available).
14. Maclean's news magazine, February 21, 1994, p.16, coverage of Canada's cigarette tax rollback effort to reduce smuggling, interviews with Canadian Health Minister Diane Marleau.
15. As cited in National Cancer Institute Fact Sheet, "The Impact of Cigarette Excise Taxes on Smoking Among Children and Adults," August 1993.
16. San Diego Union, March 22, 1994, from five-year assessment of campaign, released to the Associated Press by Stanton A. Glantz, University of California at San Francisco.
17. Source: State Revenue Departments official cigarette taxation statistics. 1989 tax stamped packs: 26.2 billion; 1994 tax stamped packs: 22.9 billion = decline of 15.1 percent.
18. Los Angeles Times, March 15, 1995, "Police Arrest 14 For Smuggling Cigarettes," (According to Board of Equalization spokesperson, "Our best estimate is that the annual impact these smugglers have is somewhere between \$50 million to \$125 million" lost revenue to state from total revenue of \$700 million. Note: \$49 million loss would be 7 percent smuggling rate; \$126 million loss would be an 18 percent smuggling rate.) Also note that law enforcement officials state privately that the smuggling rate has grown to between 20-25% in California.
19. Tax data from Illinois, Hawaii and Nebraska state revenue departments. Youth smoking data from the 1993 and 1995 Youth Risk Behavior Surveys (covering grades 9-12) published by the U.S. Centers for Disease Control. According to the CDC, while most states participate in the voluntary data collection, all states did not participate leaving data for some states unavailable.
20. Tax data from the Illinois state revenue department. Youth smoking data from the 1993 and 1995 Youth Risk Behavior Surveys (covering grades 9-12) published by the U.S. Centers for Disease Control.
21. Tax data from the Hawaii state revenue department. Youth smoking data from the 1993 and 1995 Youth Risk Behavior Surveys (covering grades 9-12) published by the U.S. Centers for Disease Control.
22. Tax data from the Nebraska state revenue department. Youth smoking data from the 1993 and 1995 Youth Risk Behavior Surveys (covering grades 9-12) published by the U.S. Centers for Disease Control.



DEPARTMENT OF THE AIR FORCE
PACIFIC AIR FORCES

24 February 1997

Eleventh Air Force
5800 G St, Ste 101
Elmendorf AFB AK 99506-2130

Ms Shari Kochman
Deputy Legislative Director
P.O. Box 110001
Juneau, AK 99811-0101

Dear Ms Kochman

Throughout the DoD and across Alaska the military is very supportive of efforts to reduce the use of tobacco products. We will continue to cooperate closely with law enforcement agencies, to include the Alaska Department of Revenue, to prevent misuse of military facilities and privileges. For example, Elmendorf AFB, the largest military facility in the state, currently has a four carton limit on single purchases of cigarettes and does not plan to change that policy. Additionally, patrons are notified by signs posted in the tobacco products section that the resale of untaxed tobacco products is unlawful. We will take action against violators, military as well as civilian. For reference, last year approximately 260,000 cartons of cigarettes were sold at Elmendorf AFB. Sales are monitored throughout the year for unusual trends. We will continue to monitor our sales and work to prevent abuse.

Sincerely

Timothy S. Brady
TIMOTHY S. BRADY
Colonel, USAF
Vice Commander

REPRESENTATIVE
TERRY MARTIN
VICE-CHAIRMAN
BUDGET & AUDIT COMMITTEE
MEMBER
HOUSE FINANCE COMMITTEE

Alaska State Legislature



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Distributed by Rep. Terry Martin

The first printing of this article occurred about 40 years ago.

TEENAGERS & SMOKING

by Ben Solomon
Editor, Leadership Library

Tobacco is a loaded lethal weapon and time pulls the trigger. It is a HABIT FORMING DRUG sold to teenagers, adolescents and adults alike. Any 8-year-old can buy all he can pay for from a vending machine. Cigarettes contain nicotine, a highly poisonous alkaloid, carbon monoxide, acrolein, ammonia, phosphoric acid and tars -- all highly dangerous to the human system. If you smoke a pack a day you inhale 400 milligrams of nicotine a week WHICH IN A SINGLE INJECTION WOULD KILL YOU QUICK AS A BULLET.

Smoking ruins your wind (especially of teenagers), interferes with your appetite and makes you less fit. Every cigarette shortens your life 25 minutes*; it is a dangerous fire hazard, it will make you less successful in school and surveys have already shown that teenage smokers partake of fewer school activities. It gives girls a tobacco smell which boys don't like; a pack a day costs at least \$150 per year, and whether you know it or not smoking starts you on the road to a variety of diseases which will cost you from 10 to 20 years of your future life. WOULD YOU PUT ANYTHING IN YOUR CAR ENGINE THAT HAS BEEN CONDEMNED BY THE NATION'S BEST AUTOMOTIVE ENGINEERS? CAR ENGINES CAN BE PURCHASED FOR A FEW HUNDRED DOLLARS BUT LUNGS ARE RATIONED, ONE PAIR TO A CUSTOMER. So ponder well whether the risk entailed is worth the pleasure derived.

We know that fear or scare headlines are not effective in motivating teenagers. Accidents always happen to the "other fellow". Deadly diseases after forty are hardly of any interest to youngsters in buoyant



health and radiant youthful spirit. But some of the following statements by the world's leading medical experts and students of this subject might help some of our boys and girls to stop smoking, to reduce their smoking, or better still, NEVER TO START. The following remarks are verbatim statements from surveys and study commissions and the research of individual specialists:

The British Ministry of Health and British Medical Research Council based on 19 investigations of smoking and lung cancer, state that A DEFINITE RELATIONSHIP OF CAUSE AND EFFECT EXISTS.

"STOP SMOKING OR STOP BREATHING," says Dr. Walter C. Alvarez, senior consultant, Mayo Clinic.

"THE DECREASE IN SEXUAL ACTIVITY of men in their 30's can very often be traced to excessive smoking." Dr. Alton Ochsner, head of the famous Ochsner Clinic in New Orleans.

The American Cancer Study of 187,000 men between 50 and 70 years of age revealed that the death rate was 52% HIGHER in heavy smokers.

"NINETY-FIVE PER CENT of all deaths from lung cancer are traceable to smoking." (Ochsner)

"It is rare for a NON-SMOKER to develop cancer of the lungs." (Ochsner)

Dr. Arnold S. Jackson, President of the National College of Surgeons, says, "90% OF MY ULCER PATIENTS ARE CHAIN SMOKERS."

"Every SINGLE CIGARETTE cuts 25 minutes off your life." Dr. Raymond Pearl of John Hopkins University.

"Smoking two cigarettes will cause a 15 TO 30 SECOND DELAY in the time the eyes require to adjust themselves to see in dim light." Dr. C. Schard of the Mayo Clinic.

In the Hammond-Horn studies, "79% of all deaths among smokers were HEART TROUBLE deaths."

A study of Harvard College alumni (started in 1938 as Harvard Sophomores) revealed that "smokers are physically LESS MASCULINE, are lower in physical fitness or hard muscular work, are more frequently shy and have more traits of self-consciousness and inhibitions than non-smokers."

Marie Currie, in her Memorial Foundation Study of 141 schools in London revealed that "Smoking starts as early as 8 years of age but there are many inveterate addicts 13 to 14 years old. The more the children smoke, the less their success in work, games and studies."

"The law allows tobacco companies to make tobacco addicts by the millions. In 95% of the cases death from lung cancer is traceable to smoking, mostly about the age of 55. Other diseases from smoking are smokers cough, smokers throat, smokers larynx, smokers asthma." (Ochsner)

Teenagers are in a hurry to grow up and smoking represents maturity to them. In their youthful eyes it is a symbol of virility and independ-

ence. They want to be one of the smoking crowd and rate; never to be different from the rest; to impress others with their independence, and they have the money to buy all they want from the very attractive and ever present vending machines. It gives them something to do with their hands; all their friends and parents smoke and all this overcomes any fears or scare, censure or ridicule from grownups.

Tobacco, of course, has its friends, not only in the industry itself but among citizens in general and some professional men. The Industry Journal "Tobacco" observed that "the disturbing factor is that the New York City school system's anti-smoking education drive is somewhat successful and that other cities might follow its lead. This might deter other children from ever becoming smokers."

The president of the Lorillard Tobacco Co. stated that "to move our products from shelf to use it is necessary to slant our appeal so that all groups are attracted, especially young adults who in their formative years are setting their future life patterns."

Of course the health claims that the industry used to use have been stopped by law, but fictitious surveys, paid testimonials, the slick tests and the trick tests, the double talk and the classical and symphonic -- yea, operatic commercials, are still with us. It would hardly pay for the public to learn the hardpan facts about tobacco. The industry would not even like teenagers to know that the Lucky Strike songstress ("Be Happy -- Go Lucky") doesn't smoke at all. This reminds us of the operatic star who some years ago in a paid testimonial claimed that "--cigarettes never hurt his throat". Of course they didn't, he never smoked any; in fact he didn't smoke at all.

ACTION

Let's see what can be done about smoking and teenagers.

1. Teenagers like to imitate their parents and it has already been proven by various surveys that most of our teenagers who smoke started because their parents did. Parents' threats, prohibitions and punishments won't prevent their youngsters from smoking if the parents themselves give their children a wrong example. **EXAMPLE TEACHES MORE AND SURE THAN PRECEPT.** Furthermore if medical surveys and the statements of the world's leading experts don't convince you the parent to stop smoking how do you expect your teenager to be convinced?
2. What can executives, supervisors, directors, play leaders, in our various public and private youth-serving agencies do about this problem? It is a real problem and many things have been tried with more or less success.

Some agencies PROHIBIT SMOKING entirely and this of course must include all the STAFF. It is highly ineffective to teach others the hazards of smoking, especially the young, if the teacher himself is a smoker. In some agencies the leaders allow the older teenagers to smoke if they have written permission from their parents and in that case they provide a special room for that activity. This parent's permission should be received in writing but you can be sure that

this is not a very good answer to the problem because too many parents are themselves apathetic about whether or not their youngsters smoke.

3. Another thing that might be used is EDUCATIONAL TALKS about tobacco, revealing the hazards in simple language and bringing it down to the youngsters' level of interest. Possible lung cancer at age 55 is of much less interest to a youngster than smoking's effect on his athletic ability TODAY. It is also somewhat effective to expose the hypocrisy of the false claims made by the tobacco companies, the methods used in their trick testing, the facts behind the paid testimonials, because this is a type of education that will really reach the young mind.
4. The schools can carry on an effective smoke education campaign. The HEALTH hazards to the individual, the FIRE hazards, the COSTS, yes, even the SOCIAL hazards might be pointed out to youngsters. Many boys (as previously mentioned) don't like girls who smell of tobacco, and many girls feel the same way about boys. The classroom is an excellent place to expose the fake trick tests, the misleading advertising, the clever and devious methods that tobacco companies use to lure the youngster to its product.

"School Activities" magazine tells the interesting story of a Student Council group which reduced smoking in its school by working with the various schoolboy hangouts (lunchrooms, hamburger joints, dine-and-dance places, etc.) The student organization had very attractive signs made which they distributed to these hangouts for display on their walls. They wrote articles in the school paper, made assembly talks, and in some cases were successful in inducing the younger children to stay away from the cigarette vending machines. The plan was so successful that many other lunchrooms and school hangouts ASKED for the signs.

5. One girls' college in Poughkeepsie, N.Y., has a REKOMSON CLUB (spell it backwards) which is officered by some of the most popular girls on the campus. The club claims phenomenal success in reducing the number of smokers. Maybe this idea can spread to our high schools.
6. But more important than all these efforts to reduce smoking among teenagers might be some of the following suggestions:
 - a. The government might OUTLAW lying, fake, trick testimonials.
 - b. It has been suggested that smoking should be PROHIBITED just as we prohibit the possession and use of narcotics. TOBACCO IS AN ADDICTIVE DRUG AND MAKES DRUG ADDICTS OUT OF EXCESSIVE SMOKERS.
 - c. The hazards of smoking should be PRINTED on each pack of cigarettes.
 - d. It has also been proposed that ALL tobacco ADVERTISING be banned as they do in Sweden.
 - e. Cigarette SLOT MACHINES CERTAINLY SHOULD BE BANNED because any 8-year-old with the price can get cigarettes too easily.

Sweden has special clinics to help cigarette addicts quit. They start off by teaching the addict to inhale less, to throw away longer butts, and gradually to break the habit sharp. The schools, churches, social

agencies and citizens use the radio, press, TV and other media for educational work along these lines aiming their material directly at young people and their parents.

THE BEST ADVICE

STOP SMOKING OR NEVER START.

1. Stop abruptly, completely and permanently.
2. Understand why you smoke and what the harm is.
3. Support your resolution. Gloria Swanson, the actress, quit smoking and then BET ONE OF HER FRIENDS \$10,000 THAT SHE WOULD NOT START AGAIN. Every time she thinks of taking a cigarette she thinks of losing \$10,000 and to date she has kept her resolution not to smoke.
4. Time your break. While you are ill is one good time to start. Dwight D. Eisenhower quit sharp and was all the better for it.
5. Expect withdrawal symptoms after you quit. Remember you are breaking a DRUG HABIT. Be prepared to fight these symptoms.
6. Adopt substitute habits if you need them; candy, an apple, raisins, water.
7. Count your blessings; realize how much smoking hurt you and cost you and you didn't know it until you stopped.
8. Help others to stop smoking.. That will help you also.
9. Don't rely on filters. Don't inhale if you do take a cigarette. Don't hold smoke in your mouth.
10. Be wary of cigarette advertising. It has been condemned by the Federal Trade Commission and by the Better Business Bureau. It has been ridiculed by responsible advertising publications and denounced by the American Medical Association who do not accept cigarette advertising in their Journal, which by the way, cost the A.M.A. \$150,000 a year in lost advertising revenue.

Cigarette smoke contains various types of drugs, POISONOUS DRUGS, addictive drugs. TEACH TEENAGERS NOT TO BECOME DRUG ADDICTS. We have become a nation of coughers, sneezers, sniffers, splitters and the greatest consumers of tobacco products in the world.

And most of our smokers start in the teen ages.

STOP SMOKING OR STOP BREATHING.**

* Dr. Raymond Pearl of John Hopkins University
** Dr. Walter C. Alvarez, Mayo Clinic

SEE OTHER SIDE FOR OUR 8 NEW BOOKS

STATE OF ALASKA
1997 LEGISLATIVE SESSION

FISCAL NOTE

No. 1
Bill Version: CSHB 1 (STA)
(H) Publish Date: 2/5/97

Revision Date: 2/4/97 Dept. Affected: Revenue
Title: Increase Tobacco Taxes BRU: Revenue Operations
Sponsor: Representative James Component: Income and Excise Audit
Requestor: (H) STA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	30.0	30.0	30.0	30.0	30.0	30.0
TRAVEL	0.5	0.5	0.5	0.5	0.5	0.5
CONTRACTUAL	6.5	1.5	1.5	1.8	1.5	1.5
SUPPLIES	0.5	0.5	0.5	0.5	0.5	0.5
EQUIPMENT	4.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	41.5	32.5	32.5	32.8	32.5	32.5
CAPITAL EXPENDITURES						
CHANGE IN REVENUES	28,938.8	43,408.2	43,408.2	50,262.3	50,262.3	50,496.6

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	41.5	32.5	32.5	32.8	32.5	32.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	41.5	32.5	32.5	32.8	32.5	32.5

Estimate of any current year (FY97) cost \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: B. Cottrell / Rep. Jeannette James Phone: 465-3743
Division: _____ Date: 2/11/97
Approved by Commissioner: Jeannette James Date: 2/4/97
Agency: Legislature

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Alaska Department of Revenue
Income and Excise Audit Division

Increase Tobacco Taxes

HB **1**

0-LS0127\E

January 17, 1997

Page 2 of 5

DRAFT BILL ANALYSIS

Section 1 increases the School Fund portion of the cigarette tax rate by \$1.00 per pack of 20; from 2.5 mills per cigarette (\$.05 per pack) to 52.5 mills per cigarette (\$1.05 per pack) through FY 2000. Combining this rate with the 12 mills per cigarette (\$.24 per pack) levied under AS 43.50.190, which goes to the General Fund, the total tax rate on a pack of cigarettes would increase from \$.29 to \$1.29. After June 30, 2000 the School Fund portion increases to 64.5 mills per cigarette (\$1.29 per pack) so the total tax rate on a pack of cigarettes increases from \$1.29 to \$1.53 through FY 2003. After June 30, 2003 the School Fund portion increases to 76.5 mills per cigarette (\$1.53 per pack) so the total tax rate on a pack of cigarettes increases from \$1.53 to \$1.77 through FY 2006. After June 30, 2006 the school fund portion increases to 88.5 mills (\$1.77) plus an additional 12 mills (\$.24) during each succeeding three-year period.

Section 2 This section only takes effect if section 1 of this act is ruled unconstitutional (see section 10). If so, the statute would be amended back to how it was prior to the bill passage.

Section 3 directs the Department of Revenue to give public notice of changes in cigarette tax rates under AS 43.50.090 at the time these tax rates are changed.

Section 4 This section only takes effect if section 1 is ruled unconstitutional (see section 10). If so, this section increases the General Fund portion of the cigarette tax rate by \$1.00 per pack of 20; from 12 mills per cigarette (\$.24 per pack) to 62 mills per cigarette (\$1.24 per pack) through FY 2000. Combining this rate with the 2.5 mills per cigarette (\$.05 per pack) levied under AS 43.50.090, which is dedicated to the School Fund, the total tax rate on a pack of cigarettes would increase from \$.29 to \$1.29. After June 30, 2000 the General Fund portion increases to 74 mills per cigarette (\$1.48 per pack) so the total tax rate on a pack of cigarettes increases from \$1.29 to \$1.53 through FY 2003. After June 30, 2003 the General Fund portion increases to 86 mills per cigarette (\$1.72 per pack) so the total tax rate on a pack of cigarettes increases from \$1.53 to \$1.77 through FY 2006. After June 30, 2006 the General Fund portion increases to 86 mills (\$1.96) plus an additional 12 mills (\$.24) during each succeeding three-year period.

Alaska Department of Revenue
Income and Excise Audit Division

Increase Tobacco Taxes

HB 1

0-LS0127E

January 17, 1997

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Section 5 This section only takes effect if section one is ruled to be unconstitutional (see section 10). If so, this section directs the Department of Revenue to give public notice of changes in cigarette tax rates under AS 43.50.190 at the time these tax rates are changed.

Section 6 increases the tobacco products tax rate from 25% to 100% of the wholesale price of the tobacco products.

Section 7 creates a new section under AS 43.50 (AS 43.50.365) to increase the tobacco product tax rate applied to the wholesale price by the Anchorage CPI on July 1 of each even numbered year. The starting point of the index is January 1, 1998.

Section 8 creates a new section under AS 43.50 (AS 43.50.380) to direct the Department of Revenue to give public notice of changes in tobacco product tax rates under AS 43.50.365 at the time these tax rates are changed.

Section 9 This section only takes effect if section 1 is ruled unconstitutional (see section 10). If so, this section repeals the public notice provision for changes in the cigarette tax rates under AS 43.50.090 that were made in section 3 of this bill.

Section 10 provides for sections 2, 4, 5 and 9 of this Act only taking effect if dedication of the proceeds of the cigarette tax to the School Fund is found to be unconstitutional.

Section 11 establishes an effective date of October 1, 1997 for sections 1, 3, and 6-8 of this act.

Section 12 establishes an effective date of which ever of the following comes later: (1) when a court enters a final judgement that the amendment under section 1 of this act is unconstitutional or (2) when the time for appeal has expired or upon entry of a final order on the appeal that section 1 is unconstitutional.

OPERATING EXPENDITURES

Department of Revenue is requesting operating funds to cover ½ the costs of a Revenue Auditor III position. With such a large increase in taxes due the state (increase from \$17 to \$50 million annually), the department anticipates increased taxpayer noncompliance.

Alaska Department of Revenue
Income and Excise Audit Division

Increase Tobacco Taxes

HB 1

0-LS0127E

January 17, 1997

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With significantly higher levels of tax, it is possible that taxpayers will look for loopholes or other methods of tax avoidance. This position will be responsible for ensuring that all taxpayers are identified and that taxpayers are filing and paying the proper amount of tax. The projected annual salary costs for the ½ portion of this position comes to \$30.0. This amount would be used to fill a currently vacant auditor position.

The department is also requesting one time FY 98 funding of \$5.0 for contractual funds to cover costs of public notice of rate increases, forms revisions and postage, and \$4.0 for equipment (\$3.5 for computer costs and \$.5 for office equipment). The recurring costs will be \$2.5 to cover travel, contractual and supplies, except for FY 01 where an addition \$.3 will be necessary to cover public notice of the tax rate increase.

REVENUE COLLECTED

The attached spreadsheet details revenue projections from rate increases in this bill.

Alaska Department of Revenue
Income and Excise Audit Division
Projected Revenue Increases from Change In Tobacco Tax Rates

Increase Tobacco Taxes
 HB 1
 0-LS0127E
 January 17, 1997
 Page 5 of 5

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Cigarettes							
<i>Elasticity Factor</i>	-18.7%	0.0%	0.0%	-23.0%	0.0%	0.0%	-27.4%
Consumption (packs of cigarettes)	28,625,595 *	42,938,393	42,938,393	40,567,562	40,567,562	40,567,562	38,249,415
Rate	\$1.29	\$1.29	\$1.29	\$1.53	\$1.53	\$1.53	\$1.77
Cigarette Tax	\$36,927,017	\$55,390,527	\$55,390,527	\$62,068,369	\$62,068,370	\$62,068,370	\$67,701,465
Less 1.0% Commission	(369,270)	(553,905)	(553,905)	(620,684)	(620,684)	(620,684)	(677,015)
Net Cigarette Tax	\$36,557,747	\$54,836,622	\$54,836,622	\$61,447,685	\$61,447,686	\$61,447,686	\$67,024,450
FY 97 Projected Cigarette Tax	(10,083,937) *	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)
Net Cigarette Tax Increase	\$26,473,810	\$39,710,717	\$39,710,717	\$46,321,780	\$46,321,781	\$46,321,781	\$51,898,545
Increase to School Fund	\$29,473,810	\$39,710,717	\$39,710,717	\$46,321,780	\$46,321,781	\$46,321,781	\$51,898,545
Tobacco Products							
<i>Elasticity Factor</i>	-18.5%	0.0%	0.0%	-19.6%	0.0%	-20.7%	0.0%
Consumption (Whole Pr. 1996 \$)	\$3,591,648 *	\$5,387,473	\$5,387,473	\$5,314,097	\$5,314,097	\$5,240,722	\$5,240,722
Rate	100%	100%	100%	106%	106%	112%	112%
Tobacco Products Tax	\$3,591,648	\$5,387,473	\$5,387,473	\$5,632,943	\$5,632,943	\$5,869,609	\$5,869,609
Less 1.0% Commission	(35,916)	(53,875)	(53,875)	(56,329)	(56,329)	(58,696)	(58,696)
Net Tobacco Products Tax	\$3,555,732	\$5,333,598	\$5,333,598	\$5,576,614	\$5,576,614	\$5,810,912	\$5,810,912
FY 97 Projected Tob. Prod. Tax	(1,090,715)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)
Net Tobacco Prod. Tax Increase	\$2,465,016	\$3,697,525	\$3,697,525	\$3,940,541	\$3,940,541	\$4,174,839	\$4,174,839
Increase to General Fund	\$2,465,016	\$3,697,525	\$3,874,810	\$3,874,810	\$4,006,350	\$4,006,350	\$4,119,043
Cigarette and Tob. Products							
Net Cigarette and Tobacco Tax	\$40,113,479 *	\$60,170,220	\$60,170,220	\$67,701,312	\$67,701,313	\$67,937,978	\$73,871,073
Net Cig. and Tob. Increase	\$28,938,827 *	\$43,408,242	\$43,408,242	\$50,262,321	\$50,262,322	\$50,496,621	\$56,073,385

*Note: The bill's effective date results in the tax increase covering 8 months in FY 98.



Alaska State Legislature

Income Tax Audit Div

Please enter into the record my testimony to the AK Dept. of Revenue
committee name

committee on HB 1 - 1-16-97, dated 2/25/97
bill/subject

The cigarette tax is just another band-aid for a bigger problem. Many laws have already been passed that have not worked. Many people and they will find another way to satisfy their needs. You're creating another market place that you'll have less control over.

It is not the government's place to always regulate. It's people's choice. I choose to be a non-smoker. I've lived with smokers who decided to stop & they did.

If you pass another tax that is not needed then at least dedicate to someone not just the children.

Statistics show that all ages are affected by cigarettes (1st & second hand smoke); therefore,

Signed: BARBARA BROADWATER (next page)
Testifier

Representing (Optional)

RN 875082 WASILLA AK 99687

Address

NA

Phone No.

It would be appropriate to dedicate the
 tax collected just to schools ^{fund~~s~~ (bonds)} & "the children".
 After all not all adults smokers have
 children in school. That would be a tax
 adults would not benefit from. That's
 not ~~compassionate~~ compassionate or
 logical if you care about people's health
 & the risk that they take from their own
 decision to smoke. Taxation is not
 the answer. Put it before the voters.

Your statistics about polls or not
 correct. We ~~had~~ ^{were} never polled ~~and~~ and do
 not appreciate ~~the~~ not being able to be
 included in your numbers. We are registered
 voters.

TKO PHARMACY

TEL: 907-513-1675

Feb 25.97 16:27 No.001 P.01

FEB 25-07 TUE 15:20

P.01

Return to 316-6180

376-6180



Alaska State Legislature

Please enter into the record my testimony to the Finance Committee
 committee name
 committee on H.B. 1 on Tobacco & Cigarette tax dated _____
 bill/subject

Re: Cigarette tax:

I understand the American Cancer Society supports the cigarette tax. I support whatever the Amer. Cancer Society says on this issue. I believe way too many Alaskans smoke cigarettes. We need to try to discourage young people from starting to smoke. The tax might help in this regard.

Hopefully the tax funds could be used to help finance health care in Alaska.

Signed: Doug Bartko Doug Bartko
 Testifier

Representing (Optional)
490 E. Railroad Ave.
 Address
Box 373 7675
 Phone No.



Alaska State Legislature

House Finance Committee

AK Dept. of Revenue

Health, Education & Social Services

Please enter into the record my testimony to the Health, Education & Social Services committee name

committee on # Cigarette & HB 1 Tobacco Tax dated 2/14/97 & 1/16/97
bill/subject

I support a tobacco tax because:

1) The higher cost will make cigarettes less attractive to young children/teenagers; especially less attractive to ~~those~~ those who have not yet started smoking, but tempted.

2) The higher cost of cigarettes would add one more good reason for smokers to switch to the Nicotine Patches, which are designed to help people stop smoking. At present, smokers complain that the Nicotine Patches are more expensive than cigarettes themselves, in the short term, so they have no incentive to switch. The tax would equalize the two more.

3) The tax revenue can be used to reimburse the

Signed:

[Signature]
Testifier

Representing (Optional)

P.O. Box 672029, CHUGUAK, AK 99567

Address

745-8432

Phone No.

Cont'd
on
back

~~Education will not~~

Thank you for your attention.

~~Education will not~~
~~Education will not~~
~~Education will not~~

* Of course, smoking is one's free choice, but isn't paying for the unreimbursed ambulance & hospital cost? why not use the tax to pay for this?

* Education will alter behavior even if ~~the effect of~~ cost doesn't; so why not add the tax for the reason of using the revenue for education? Where else should the education money come from?

* Education will alter behavior even if ~~the effect of~~ cost doesn't; so why not add the tax for the reason of using the revenue for education? Where else should the education money come from?

State for years of health care cost related to tobacco caused illnesses.
More importantly, the money can go towards education and intervention programs.

Tobacco Tax Bill Analysis

**Presentation to the
20th Alaska Legislature**

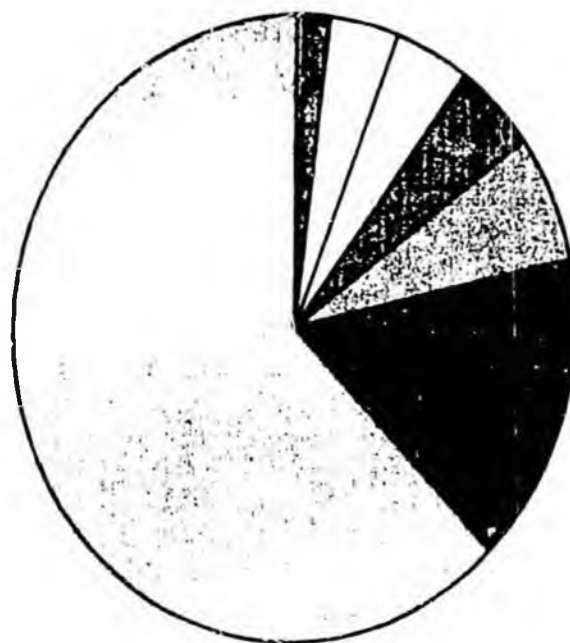
Tobacco Usage

- Tobacco usage is the number one cause of preventable death and disease in the US, accounting for more than **419,000 deaths each year.**
- **23% of deaths** of Alaskans 35 years of age or older in 1991 were **attributable to smoking.**

Health Impact of Smoking

Number of Deaths in USA

Cigarette
Smoking 418,690

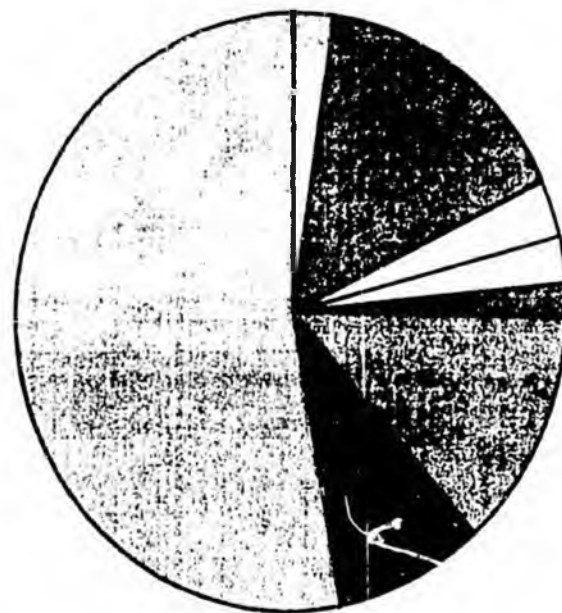


- Fires
- Illegal Drugs
- Homicides
- AIDS
- Suicides
- Mot. Veh. Accidents
- Alcohol
- Cigarette Smoking

Health Impact of Smoking

Number of Deaths in Alaska

Cigarette
Smoking 1,416



- Fires
- Firearms
- Aircraft crashes
- AIDS
- Falls
- Mot. Veh. Accidents
- Alcohol
- Cigarette Smoking

Youth Tobacco Usage

- **83%** of adult smokers report that they started smoking before the age of 20.
- **21%** of Alaskan high school students reported they regularly smoked in the last month.
- **25%** of Alaskan middle school students reported smoking at least one cigarette in the last month.

Youth Tobacco Vendors Survey

- **64%** of Alaska tobacco merchants complied with tobacco restriction laws in 1996.
- The federal government mandates an **80% compliance rate** by the year 2000 under the Synar Amendment.
- Tobacco vendors refused to sell to 14-15 year olds **71%** of the time, while 16-17 year olds were refused **58%** of the time.