

May 1, 2012

# Proposition 29: Imposes Additional Tax on Cigarettes for Cancer Research

---

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Assembly Health Committee  
Hon. William W. Monning, Chair  
Assembly Revenue and Taxation Committee  
Hon. Henry T. Perea, Chair





## Summary and Background

---

### Summary

- Proposition 29 would increase excise taxes on the distribution of cigarettes and other tobacco products. It would use the additional revenues raised for research on cancer and tobacco-related diseases (such as heart disease and emphysema), as well as for other specified purposes.

### Background

- Existing State Tobacco Excise Taxes.** Current state law imposes excise taxes on the distribution of cigarettes and other tobacco products, such as cigars and chewing tobacco. Tobacco excise taxes are paid by distributors who supply cigarettes and other tobacco products to retail stores. As Figure 1 shows, the state's cigarette excise tax is currently 87 cents per pack and total state revenues from existing excise taxes on cigarettes and other tobacco products were just over \$900 million in 2010-11.
- Existing Federal Tobacco Excise Tax.** The federal government also imposes an excise tax on cigarettes and other tobacco products. In 2009, this tax was increased by 62 cents per pack (to a total of \$1.01 per pack).
- Existing State and Local Sales and Use Taxes.** Retail sales of cigarettes and other tobacco products are also subject to state and local sales and use taxes. The average retail price of a pack of cigarettes in California currently is over \$5. More than \$400 million in annual revenues from sales and use taxes on cigarettes and other tobacco products go to the state and local governments.



## Summary and Background

(Continued)

Figure 1 Existing State Tobacco Excise Taxes		
<i>(Dollars in Millions)</i>		
Description	Cents Per Pack of Cigarettes	Estimated 2010-11 Net Revenue <sup>a</sup>
<b>State General Fund:</b> Initially enacted by the Legislature in 1959 for general support of the state budget.	10¢	\$96
<b>Proposition 99:</b> Enacted by the voters in 1988 for the purposes of supporting tobacco education and prevention efforts, tobacco-related disease research programs, health care services for low-income persons, and environmental protection and recreational resources. Some Proposition 99 revenues are used to support programs that also receive support from the state General Fund.	25	298 <sup>b</sup>
<b>Breast Cancer Fund:</b> Enacted by the Legislature in 1993 for the purposes of supporting breast cancer screening programs for uninsured women and research related to breast cancer.	2	23
<b>Proposition 10:</b> Enacted by the voters in 1998 for the purposes of supporting early childhood development programs.	50	489 <sup>b</sup>
<b>Totals</b>	<b>87¢</b>	<b>\$905<sup>c</sup></b>

<sup>a</sup> Accounts for payments from Proposition 10 to other funds in order to maintain pre-Proposition 10 revenue levels.  
<sup>b</sup> Total includes excise tax revenue from other types of tobacco products, such as cigars and chewing tobacco.  
<sup>c</sup> Does not total due to rounding.



### Current Health Research and Tobacco Cessation Activities

- Across the country, substantial amounts of money are spent on research related to cancer and tobacco-related diseases, such as heart disease. For example, the National Institutes of Health provide several billion dollars annually for grants and research in these areas.
- In California, tobacco prevention and cessation programs are currently conducted by public entities, health insurers, and various other organizations. For example, approximately \$50 million a year from Proposition 99 revenues is used to fund tobacco prevention and cessation programs in California.



## Proposition 29's Provisions

---



### **New State Tobacco Tax Revenues**

- Proposition 29 increases—effective October 2012—the existing state excise tax on cigarettes by \$1 per pack. The total state excise tax, therefore, would be \$1.87 per pack.
- Existing state law requires the Board of Equalization (BOE) to annually set a tax on other tobacco products at an amount equivalent to the tax on cigarettes. Accordingly, this measure would also result in a comparable increase in the excise tax on other tobacco products, with the revenues supporting Proposition 99 purposes.



### ***How New Cigarette Tax Revenues Would Be Spent.***

Revenues from the increase in the cigarette excise tax would be deposited in a new special fund (the trust fund). After compensating existing tobacco tax program funds for any tobacco tax revenue losses due to the imposition of the new tax, the remaining money would be distributed among five funds:

- ***Hope 2010 Research Fund.*** Sixty percent of the funds would be used to provide grants and loans to support research on prevention, diagnosis, treatment, and potential cures for cancer and tobacco-related diseases. The measure states that all qualified researchers would have an equal opportunity to compete for these research funds.
- ***Hope 2010 Facilities Fund.*** Fifteen percent would be used to provide grants and loans to build and lease facilities and provide capital equipment for research on cancer and tobacco-related diseases.
- ***Hope 2010 Tobacco Prevention and Cessation Fund.*** Twenty percent would be used for tobacco prevention and cessation programs administered by the California Department of Public Health (DPH) and the California



## Proposition 29's Provisions

(Continued)

Department of Education.

- **Hope 2010 Law Enforcement Fund.** Three percent would be allocated to state agencies to support law enforcement efforts to reduce cigarette smuggling, tobacco tax evasion, and illegal sales of tobacco to minors, and to otherwise improve enforcement of existing law.
- **Hope 2010 Committee Account.** Two percent would be deposited into an account that would be used to pay the costs of administering the measure, most of which would likely be reimbursing BOE for tax collections costs.



**Committee Established to Administer Trust Fund.** The trust fund would be overseen by a newly created Cancer Research Citizen's Oversight Committee. The committee would be composed of the following nine members:

- Four members appointed by the Governor, three of whom are directors of one of the ten designated cancer centers in California.
- Two members appointed by the Director of DPH, at least one of whom has been treated for a tobacco-related illness.
- Three chancellors from University of California (UC) campuses that are members of the California Institute for Quantitative Biosciences Research. (Currently, three UC campuses—Santa Cruz, Berkeley, and San Francisco—are institute members.)

The funds would be allocated by the committee and would have to be expended solely for the purposes described in the measure. Thus, they would not be subject to appropriation by the Legislature. Furthermore, these funds could not be loaned to other state funds.



## Proposition 29's Provisions

*(Continued)*

---

- Accountability Measures.*** The measure requires the committee to issue an annual report to the public that includes information on its administrative expenses, the number and amount of grants provided, and a summary of research accomplishments. The committee would also be required to have an independent financial audit each year. The measure includes conflict of interest provisions that govern the conduct of committee members, and includes specific criminal penalties for anyone convicted for the misuse of trust fund monies.



## Fiscal Impact of Proposition 29

**Figure 2**  
**How Estimated Revenue From New Cigarette Tax**  
**Would Be Allocated**

*(Dollars in Millions)*

	Allocation	2013-14 Funding (Full Year)
<b>Estimated revenue from new cigarette tax</b>		<b>\$810</b>
Less backfill to Proposition 99, Proposition 10, General Fund, and Breast Cancer Fund	—	-75 <sup>a</sup>
<b>Estimated Net Revenue</b>		<b>\$735</b>
<b>Allocation of estimated net revenue</b>		
Research Fund	60%	\$441
Facilities Fund	15	110
Tobacco Prevention and Cessation Fund	20	147
Law Enforcement Fund	3	22
Committee Account	2	15

<sup>a</sup> LAO estimate. Backfill amounts would be determined by the Board of Equalization.

**Net Increase in Cigarette Excise Tax Revenues of About \$735 Million Annually in 2013-14 for the Purposes Described in the Measure.**

- Figure 2 shows our estimate of the allocation of new cigarette excise tax revenues in 2013-14 (the first full-year impact).
- The cigarette tax increase would generate somewhat lower amounts of revenue each year thereafter, based on our projections of continued declining cigarette consumption.

***Increase in Excise Tax Revenues on Other Tobacco Products of About \$50 Million Annually.*** Under current law, any cigarette tax increase triggers an automatic corresponding increase in the taxes on other tobacco products, with the additional revenues going to support Proposition 99 purposes, including mainly health and tobacco prevention and cessation programs.



## Fiscal Impact of Proposition 29 *(Continued)*

---

- Net Increase in State and Local Sales Tax Revenues of About \$10 Million to \$20 Million Annually.*** The higher retail price of tobacco products resulting from the new excise tax would increase state and local revenue from the sales and use tax on tobacco products. This effect would be offset somewhat by several factors, including lower spending on other products subject to sales and use taxes.
  
- Unknown Net Impact on Other Long-Term State and Local Government Health Care Costs.*** This measure would reduce state and local government health care spending on tobacco-related diseases over the long-term. The reduction in tobacco-related diseases would have other fiscal effects that offset these cost savings. For example, the state and local governments would incur future costs for the provision of health care and social services that otherwise would not have occurred as a result of individuals who avoid tobacco-related diseases living longer.