



## PROPOSITION 56

*Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement. Initiative Constitutional Amendment and Statute.*

The California Attorney General has provided the following Title and Summary for Proposition 56, which qualified for the November Election Ballot on June 30, 2016:

***Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement. Initiative Constitutional Amendment and Statute.***

***Increases cigarette tax by \$2.00 per pack, with equivalent increase on other tobacco products and electronic cigarettes containing nicotine. Allocates revenues primarily to increase funding for existing healthcare programs; also for tobacco use prevention/control programs, tobacco-related disease research and law enforcement, University of California physician training, dental disease prevention programs, and administration. Excludes these revenues from Proposition 98 funding requirements. If tax causes decreased tobacco consumption, transfers tax revenues to offset decreases to existing tobacco-funded programs and sales tax revenues. Requires biennial audit. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local government: Net increase in excise tax revenues in the range of \$1.1 billion to \$1.6 billion annually by 2017-18, with revenues decreasing slightly in subsequent years. The majority of funds would be used for payments to health care providers. The remaining funds would be used for a variety of specified purposes, including tobacco-related prevention and cessation programs, law enforcement programs, medical research on tobacco-related diseases, and early childhood development programs. (15-0081.)*** ([Full Text](#))

### BACKGROUND

According to the Legislative Analyst's Office, tobacco products are derived from tobacco plants, contain nicotine, and are intended for human consumption, such as cigarettes and smokeless tobacco. Electronic cigarettes are battery-operated products that are generally designed to deliver nicotine, flavor, and other chemicals. These devices turn chemicals, including nicotine, into an aerosol that is inhaled by the user. Tobacco products are subject to state and federal excise taxes, and state and local sales and use taxes. In contrast, electronic cigarettes are currently not subject to state and federal excise taxes but are subject to state and local sales and use 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. These taxes are typically passed on to consumers as higher prices on cigarettes and other tobacco products. The average retail price of a pack of cigarettes in California is close to \$6.

The state's cigarette excise tax is currently 87 cents. Two voter-approved measures-- Proposition 99 in 1988 and Proposition 10 in 1998-- are responsible for generating the vast majority of tobacco excise tax revenues, which were just under \$840 million in 2014-15. Roughly \$400 million of that amount goes to state and local governments to support purposes of Proposition 10 and Proposition 99. The remaining amount goes to the federal government to help fund the Children's Health Insurance Program, which provides subsidized health insurance coverage to children in low-income families.

## **PROVISIONS**

This measure increases excise taxes on the distribution of cigarettes and other tobacco products by \$2 per pack effective April 1, 2017. These excise taxes would also apply, for the first time, to certain types of electronic cigarettes (those containing nicotine if sold with liquid containing nicotine referred to as e-cigarettes). New revenues would be used to increase funding for existing healthcare programs and services, tobacco-related prevention and cessation programs, law enforcement programs, medical research on tobacco-related diseases and early childhood development programs.

Increased revenues generated by this measure would be deposited directly into a new special fund, called the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund. Revenues deposited into the fund would only be used for purposes set forth in the measure and would not be subject to appropriation by the Legislature. Increased revenues would also be excluded from Proposition 98 funding requirements.

This measure would result in a net increase in excise tax revenues in the range of \$1.1 billion to \$1.6 billion annually by 2017-18, with revenues decreasing slightly in subsequent years.

## **ARGUMENTS FOR**

Proponents argue that increasing California's tobacco tax will save lives and reduce smoking rates, especially among young and low-income smokers. California's cigarette tax is among the lowest in the nation. It is proven that higher cigarette prices drive down smoking rates, particularly among young, ethnic and low-income smokers. Revenue generated by the higher tobacco tax will go to under funded programs targeted at underserved communities. Proponents include a broad coalition, *Save Lives California*, including doctors, dentists, hospitals, health plans, and non-profit health advocacy organizations (American Cancer Society, American Lung Association, American Lung Association, and the American Heart Association), with major funding by Service Employees International Union (SEIU).

## **ARGUMENTS AGAINST**

Opponents of this measure argue that increases in such taxes are regressive, affecting poorer tobacco users more than richer ones. They also claim that such increases create a black market for cigarettes, hurting legitimate businesses. They claim too that increases in tobacco taxes do little to help state budgets, but only funnel more money into efforts overseen by government entities. Opponents characterize Proposition 56 as a tax hike grab by insurance companies and other special interests to increase their profits by shortchanging schools and ignoring other pressing problems, while doing nothing to save lives. The No on 56 campaign is funded by Philip Morris USA, R.J. Reynolds and other tobacco concerns.

## **CAPTA RATIONALE**

California State PTA is committed to advocating for the needs of our most vulnerable children and youth, and to supporting children's health by promoting healthy lifestyles. We know that education and smoking cessation programs work to save lives by preventing teens, who have been shown to be sensitive to the price of tobacco products, from choosing to smoke in the first place. California's cigarette taxes are currently 35<sup>th</sup> highest in the country. Proposition 56 would put California in the top 10 among the 50 states. California State PTA has supported past measures that increased tobacco taxes, both Proposition 99 and Proposition 10, as well as a ballot measure that failed passage in 2012.

*The workgroup recommends that the Legislation Action Committee recommend to the Board of Managers that the California State PTA take a SUPPORT position on Proposition 56.*