Closing Pennsylvania's Tobacco Loophole

Tobacco Products Tax Will Save Lives, Preserve Jobs

PENNSYLVANIA BUDGET AND POLICY CENTER

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Just about everywhere in the United States people pay a state excise tax when they buy cigars, chewing tobacco, snuff, or loose tobacco to roll their own cigarettes. But not in Pennsylvania.

Though it taxes cigarettes – like every other state – Pennsylvania is one of only two states to exempt cigars from taxation and is the only state not to tax the other forms of tobacco. This loophole in the state's tobacco excise tax costs the Commonwealth millions of dollars a year and appears aimed at protecting the state's modest tobacco industry, even though states where far more tobacco products are made levy a tax with no apparent opposition.

Closing this loophole—taxing all tobacco products—will bring in needed revenue to preserve jobs in hospitals, libraries and environmental protection and have the added benefit of saving lives and reducing health costs. Studies have shown that taxing so-called gateway tobacco products, such as smokeless tobacco, will reduce tobacco usage, especially among young people.

There are several proposals in the General Assembly to tax other tobacco products (OTP). Governor Rendell's proposal would raise at least $41 million annually, others even more. Here are the facts:

- **It time to get rid of Pennsylvania's "tobacco tax haven" status**. 49 states have an excise tax on smokeless tobacco and all but Pennsylvania and Florida tax cigars. We can't afford this special tax break for a few large tobacco companies.
- **Pennsylvania has very few tobacco-related jobs.** The state is home to 30 tobacco manufacturing companies and 65 wholesalers, and most of these jobs are in the sale and distribution of cigarettes, which are already taxed. Tobacco manufacturers make up 0.15% of Pennsylvania's manufacturing jobs, while tobacco wholesalers total only 0.6% of the state's wholesale jobs. Pennsylvania is a big market, so wholesalers are unlikely to leave.
- **Big Tobacco benefits from this loophole.** Swedish Match AB which owns Cigars International—with 175 Pennsylvania employees—has 11,000 employees worldwide and is the big winner here. Altria, the owner of Philip Morris and U.S. Smokeless Tobacco, owns Pennsylvania's biggest tobacco product manufacturer, John Middleton.
- **The proposed tax rate is competitive.** 33 states tax other tobacco products based on wholesale price with rates ranging from 7% to 90%. Pennsylvania's proposed 30% rate falls in the middle.
- **Pennsylvania grows very little tobacco.** 93% of the tobacco in the U.S. is grown in five states that all impose this tax: North Carolina, Kentucky, Tennessee, Virginia and South Carolina. Pennsylvania produces only 1.6% of the nation's tobacco. 94% of tobacco is grown for cigarettes, which are already taxed.
- **The tax will reduce tobacco use among teens.** The Center for Rural Pennsylvania notes that smokeless tobacco use is a growing problem in the Commonwealth and is more prevalent here than nationally. Smokeless tobacco advertising has increased by 72% in recent years and new smokeless tobacco products are being targeted to teens.
- **Closing the tobacco loophole saves lives.** The tax is expected to cut demand for smokeless tobacco and cigars by up to 8%. Cutting demand means fewer Pennsylvanians would be using these products. Fewer users mean lower health care costs.
- **Closing the loophole saves jobs.** $40 million a year in additional tax revenue could prevent layoffs in schools, libraries, hospitals and non-profit organizations helping people harmed by this recession.

Learn more: http://www.pennbpc.org/tobacco-products-tax