

**Testimony before the Public Health Committee  
Indiana House of Representatives  
Regarding Cigarette and Vapor Product Excise Taxes  
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February 1, 2021**

Chairman Barrett and Members of the Committee,

Thank you for taking the time today to discuss the issue of taxing combustible cigarettes and vapor products. My name is Lindsey Stroud and I am a Policy Analyst with the Taxpayers Protection Alliance (TPA). TPA is a non-profit, non-partisan organization dedicated to educating the public through the research, analysis and dissemination of information on the government's effects on the economy.

As state revenues decline, many lawmakers have looked to make up for that shortfall by increasing existing excise taxes on tobacco and vapor products. Excise taxes on tobacco products are fundamentally flawed as revenue-generating policies because they are unreliable and highly regressive. Further, lawmakers should refrain from imposing taxes on tobacco harm reduction products such as vapor products, as these products are significantly less harmful than combustible cigarettes and are effective at helping smokers quit.

**Tobacco Taxes Are Inherently Regressive, Haven't Led to Significant Decline in Smoking Rates in Indiana**

Tobacco taxes disproportionately impact lower-income people who spend a greater share of their income on tobacco products. A *Cato Journal* article found from 2010 to 2011, "smokers earning less than \$30,000 per year spent 14.2 percent of their household income on cigarettes," compared to 4.3 percent of those earning "between \$30,000 and \$59,999 and 2 percent for smokers earning more than 60,000."<sup>1</sup>

In Indiana, among adult smokers in 2019, 34.2 percent reported household incomes of less than \$15,000 per year and additional 28.3 percent reported earning between \$15,000 and \$24,999.<sup>2</sup> In fact, 85.4 percent of adult smokers in Indiana reported earning \$34,999 per year or less.

Further, there is no evidence that previous excise tax increases led to declines in adult smoking rates. For example, in 2007 was when Indiana's last tax hike on cigarettes took effect, which was an increase from \$0.44 per pack to \$0.995 per pack.<sup>3</sup> In 2007, 24.1 percent of Indiana adults reported current use of combustible cigarettes, this increased to 26 percent in 2008, the year after tax increase went into effect. Further, among current smokers, in 2008, 41.1 percent were aged 18 to 24 years old, a 37.9 percent increase from 2007 when 29.8 percent of current smokers were aged 18 to 24 years old. In 2009, 25.6 percent of current smokers were aged 18 to 24 years old – or a 14.1 percent decrease in the two years after the excise tax went into effect.

Moreover, the 2007 excise tax increase failed to reduce smoking rates among lower income persons. In 2008 (among current smokers) 40.3 percent reported incomes under \$15,000 per year. This is a 18.5 percent increase from 2007, when 34 percent of current adult smokers reported incomes of less than \$15,000 per year.

### **Tobacco Taxes Are Unreliable Sources of Revenue**

Additionally, tobacco and sin taxes are unreliable revenue sources over the long term. Although a sin tax may create a temporary increase in revenue, it often leads to future revenue decreases. The National Taxpayers Union Foundation found from 2001 to 2011, “revenue projections were met in only 29 of 101 cases where cigarette/tobacco taxes were increased.”<sup>4</sup> Researchers at the Pew Charitable Trusts found a decline in cigarette consumption caused cigarette tax revenue “to drop by an average of about 1 percent across all states from 2008 to 2016.”<sup>5</sup>

Indeed, Indiana’s cigarette tax revenue has declined after initial increases. In 2008, the state collected \$525.3 million in tobacco tax revenue, a 39.5 percent increase from 2007, when the Hoosier State collected \$376.6 million in tobacco taxes. In 2020, Indiana collected \$409.2 million in tobacco tax revenues, this represents a 22.1 percent decrease in tobacco tax revenues between 2008 and 2020.

(See supplemental graph 1.1)

### **E-Cigarettes and Tobacco Harm Reduction**

Lawmakers should refrain from imposing excise taxes on electronic cigarettes and vapor products as these are *tobacco harm reduction* products that are significantly less harmful than combustible cigarettes and have helped millions of American adults successfully quit smoking.

The evidence of harm associated with combustible cigarettes has been understood since the 1964 U.S. Surgeon General’s Report that determined that smoking causes cancer. Research overwhelmingly shows the smoke created by the burning of tobacco, rather than the nicotine, produces the harmful chemicals found in combustible cigarettes.<sup>6</sup> There are an estimated 600 ingredients in each tobacco cigarette, and “when burned, [they] create more than 7,000 chemicals.”<sup>7</sup> As a result of these chemicals, cigarette smoking is directly linked to cardiovascular and respiratory diseases, numerous types of cancer, and increases in other health risks among the smoking population.<sup>8</sup>

For decades, policymakers and public health officials looking to reduce smoking rates have relied on strategies such as emphasizing the possibility of death related to tobacco use and implementing tobacco-related restrictions and taxes to motivate smokers to quit using cigarettes. However, there are much more effective ways to reduce tobacco use than relying on government mandates and “quit or die” approaches.

During the past 30 years, the tobacco harm reduction (THR) approach has successfully helped millions of smokers transition to less-harmful alternatives. THR includes effective nicotine delivery systems, such as smokeless tobacco, snus, electronic cigarettes (e-cigarettes), and vaping. E-cigarettes and vaping devices have emerged as especially powerful THR tools, helping nearly three million U.S. adults quit smoking from 2007 to 2015.

In fact, an estimated 10.8 million American adults were using electronic cigarettes and vapor products in 2016.<sup>9</sup> Of the 10.8 million, only 15 percent, or 1.6 million adults, were never-smokers, indicating that e-cigarettes are overwhelmingly used by current and/or former smokers.

### **E-Cigarettes and Vapor Products 101**

E-cigarettes were first introduced in the United States in 2007 by a company called Ruyan.<sup>10</sup> Soon after their introduction, Ruyan and other brands began to offer the first generation of e-cigarettes, called “cigalikes.” These devices provide users with an experience that simulates smoking traditional tobacco cigarettes. Cig-alikes are typically composed of three parts: a cartridge that contains an e-liquid, with or without nicotine; an atomizer to heat the e-liquid to vapor; and a battery.

In later years, manufacturers added second-generation tank systems to e-cigarette products, followed by larger third-generation personal vaporizers, which vape users commonly call “mods.”<sup>11</sup> These devices can either be closed or open systems.

Closed systems, often referred to as “pod systems,” contain a disposable cartridge that is discarded after consumption. Open systems contain a tank that users can refill with e-liquid. Both closed and open systems utilize the same three primary parts included in cigalikes—a liquid, an atomizer with a heating element, and a battery—as well as other electronic parts. Unlike cigalikes, “mods” allow users to manage flavorings and the amount of vapor produced by controlling the temperature that heats the e-liquid.

Mods also permit consumers to control nicotine levels. Current nicotine levels in e-liquids range from zero to greater than 50 milligrams per milliliter (mL).<sup>12</sup> Many users have reported reducing their nicotine concentration levels after using vaping devices for a prolonged period, indicating nicotine is not the only reason people choose to vape.

### **Health Effects of Electronic Cigarettes and Vapor Products**

Despite recent media reports, e-cigarettes are significantly less harmful than combustible cigarettes. Public health statements on the harms of e-cigarettes include:

**Public Health England:** In 2015, Public Health England, a leading health agency in the United Kingdom and similar to the FDA found “that using [e-cigarettes are] around 95% safer than smoking,” and that their use “could help reducing smoking related disease,

death and health inequalities.”<sup>13</sup> In 2018, the agency reiterated their findings, finding vaping to be “at least 95% less harmful than smoking.”<sup>14</sup>

**The Royal College of Physicians:** In 2016, the Royal College of Physicians found the use of e-cigarettes and vaping devices “unlikely to exceed 5% of the risk of harm from smoking tobacco.”<sup>15</sup> The Royal College of Physicians (RCP) is another United Kingdom-based public health organization, and the same public group the United States relied on for its 1964 Surgeon General’s report on smoking and health.

**The National Academies of Sciences, Engineering, and Medicine:** In January 2018, the academy noted “using current generation e-cigarettes is less harmful than smoking.”<sup>16</sup>

A 2017 study in *BMJ*’s peer-reviewed journal *Tobacco Control* examined health outcomes using “a strategy of switching cigarette smokers to e-cigarette use ... in the USA to accelerate tobacco control progress.”<sup>17</sup> The authors concluded that replacing e-cigarettes “for tobacco cigarettes would result in an estimated 6.6 million fewer deaths and more than 86 million fewer life-years lost.”

An October 2020 review in the *Cochrane Library Database of Systematic Reviews* analyzed 50 completed studies which had been published up until January 2020 and represented more than 12,400 participants.

The authors found that there was “moderate-certainty evidence, limited by imprecision, that quit rates were higher in people randomized to nicotine [e-cigarettes] than in those randomized to nicotine replacement therapy.” The authors found that e-cigarette use translated “to an additional four successful quitters per 100.” The authors also found higher quit rates in participants that had used e-cigarettes containing nicotine, compared to the participants that had not used nicotine.

Notably, the authors found that for “every 100 people using nicotine e-cigarettes to stop smoking, 10 might successfully stop, compared with only six of 100 people using nicotine replacement therapy or nicotine-free e-cigarettes.”

### **Tobacco Economics 101: Indiana**

In 2019, 12.1 percent of adults in Indiana smoked tobacco cigarettes, amounting to 624,797 smokers in 2019.<sup>18</sup> When figuring a pack-per-day, over 4.5 billion cigarettes were smoked in 2019 by Hoosiers, or about 12.5 million per day.<sup>19</sup>

In 2019, Indiana imposed a \$0.995 excise tax on a pack of cigarettes.<sup>20</sup> When figuring for a pack-per-day habit among adults that smoked in Indiana, the Hoosier State collected an estimated \$227 million in cigarette excise taxes. This amounts to \$36.32 per smoker per year. According to the Indiana Department of Revenue, in 2019, the state collected \$405 million in tobacco excise taxes.

Indiana spent \$7.5 million on tobacco control programs in 2019, or \$12.00 per smoker per year. This is only 3 percent of what the state received in excise taxes in 2019 from Indiana adult smokers, based off a pack-a-day habit, and only 1.8 percent of total tobacco tax collections in 2019. When figuring amount spent on youth in the state, Indiana spent \$4.78 per year for each resident under 18 years of age.

### **Vapor Economics 101: Indiana**

Electronic cigarettes and vapor products are not only a harm reduction tool for hundreds of thousands of smokers in the Hoosier State, they're also an economic boon.

According to the Vapor Technology Association and John Dunham & Associates, in 2018, the industry created 2,110 direct vaping-related jobs, including manufacturing, retail and wholesale jobs in Indiana, which generated \$61.8 million in wages alone.<sup>21</sup> Moreover, the industry has created hundreds of secondary jobs in Indiana, bringing the total economic impact in 2018 to \$480,477,900. In the same year, Indiana received more than \$26 million in state taxes attributable to the vaping industry. These figures do not include sales in convenience stores, which sell vapor products including disposables and prefilled cartridges. In 2016, sales of these products in Indiana eclipsed \$9.4 million.<sup>22</sup>

Switching from combustible cigarettes to electronic cigarettes and vapor products will also reduce smoking-related health issues and save persons and states money. WalletHub estimated the "true cost of smoking" including "...cost of a cigarette pack per day, health care expenditures, income losses and other costs."<sup>23</sup> WalletHub estimated the true cost for smoker in Indiana to be \$38,968 per-smoker per-year.

In 1995, 33.9 percent of Indiana adults smoked combustible cigarettes, amounting to over 1.47 million adults.<sup>24</sup> Among all adults, 24.3 percent (1.05 million adults) reported smoking every day in 1995. In 2019, 19.2 percent of adults in the Hoosier State were current smokers, amounting to 991,535 smokers. Further, 8.9 percent of Hoosier adults (459,618 adults) were daily smokers in 2019.

Among Indiana adults, current smoking decreased by 58.4 percent between 1995 and 2019. Moreover, there are an estimated 54,465 fewer smokers in 2019, compared to 1995, and 590,382 fewer daily smokers. Using the WalletHub figures, this reduction represents over \$2.12 billion in yearly savings.

Other reports have also noted that substitution of e-cigarettes for combustible cigarettes could save the state in health care costs.

According to the Centers for Disease Control and Prevention (CDC), it is now well known that Medicaid recipients smoke at rates of twice the average of privately insured persons. In 2013, "smoking-related diseases cost Medicaid programs an average of \$833 million per state."<sup>25</sup>

A 2015 policy analysis by State Budget Solutions examined electronic cigarettes' effect on Medicaid spending. The author estimated Medicaid savings could have amounted to \$48 billion in 2012 if e-cigarettes had been adopted in place of combustible tobacco cigarettes by all Medicaid recipients who currently consume these products.<sup>26</sup>

A 2017 study by the R Street Institute examined the financial impact to Medicaid costs that would occur should a large number of current Medicaid recipients switch from combustible cigarettes to e-cigarettes or vaping devices. The author used a sample size of "1% of smokers [within] demographic groups permanently" switching. In this analysis, the author estimates Medicaid savings "will be approximately \$2.8 billion per 1 percent of enrollees," over the next 25 years.<sup>27</sup>

### **Wasted Tobacco Dollars**

Deeply problematic with the proposed legislation is the fact that Indiana spends very little on tobacco control, including education and prevention.

Between 2000 and 2020, Indiana received an estimated \$2.688 billion in payments attributed to the Master Settlement Agreement (MSA).<sup>28</sup> During the same time period, the Hoosier State allocated only \$249.9 million toward tobacco control programs – or about 9 percent of what the state received in MSA payments during the period.<sup>29</sup> These figures do not include the state's excise tax on cigarettes – which, during the same time period, Indiana collected over \$804.2 million.

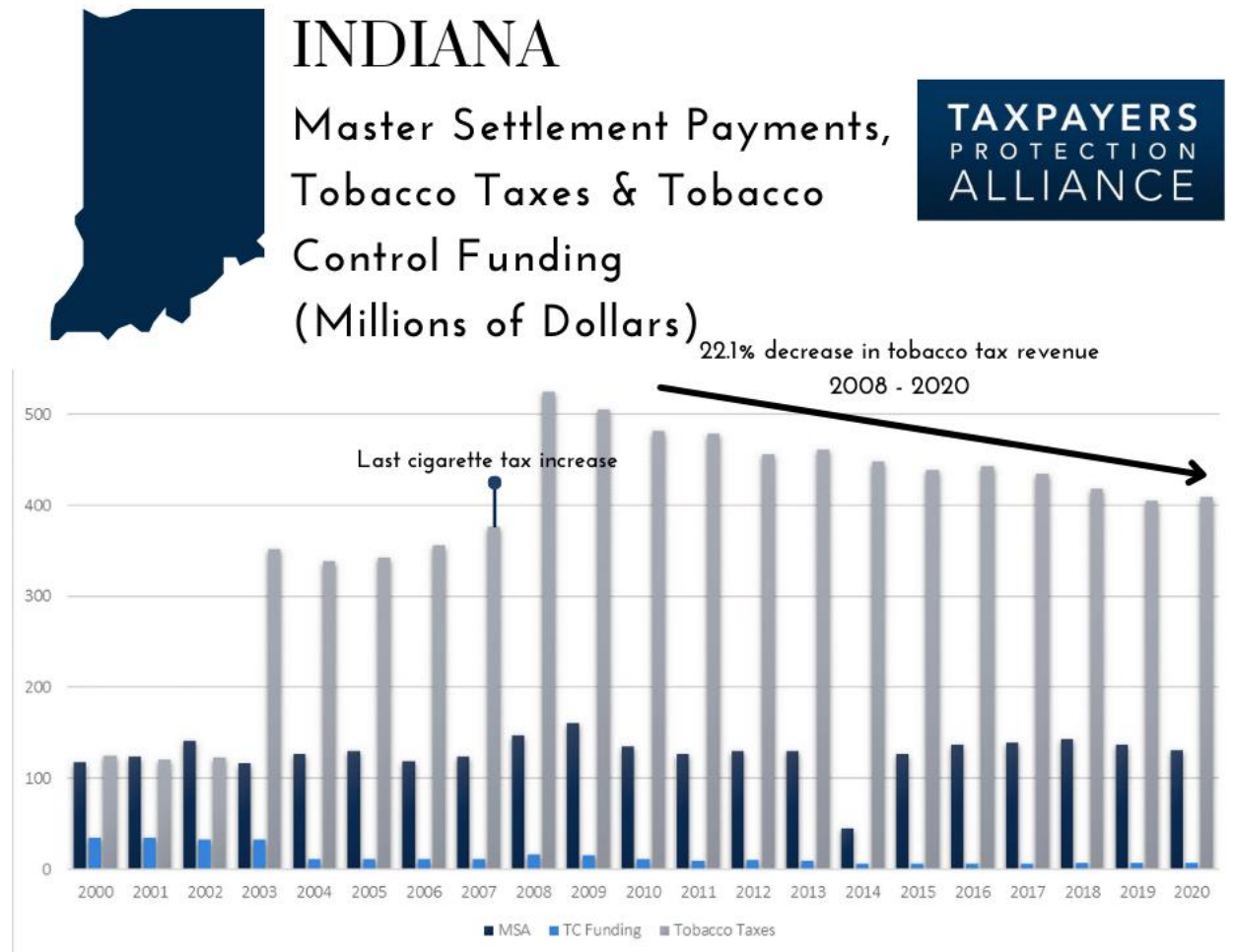
### **Conclusion & Policy Recommendations:**

Lawmakers should refrain from relying on volatile excise taxes on tobacco and vapor products to address budget shortfalls. Moreover, tobacco harm reduction products including vapor products, should not be subject to excise taxes. Often, these taxes are used to thwart behaviors, as a tobacco harm reduction product that helps smokers quit, switching to such products should be promoted.

- To address budget concerns, lawmakers should eliminate waste, fraud, and abuse and reform current state programs and existing taxes, rather than increasing excise taxes on tobacco and vapor products.
- Tobacco taxes are regressive and inherently unreliable, lawmakers should seek out more stable sources of revenue.
- Lawmakers must refrain from imposing taxes on products that help smokers quit and promote the adult use of such products for current smokers.

## Supplemental Graphs

### 1.1 Analysis of Tobacco Control Funding, MSA Payments and Tobacco Taxes



Sources: Campaign for Tobacco-Free Kids, Indiana Department of Revenue  
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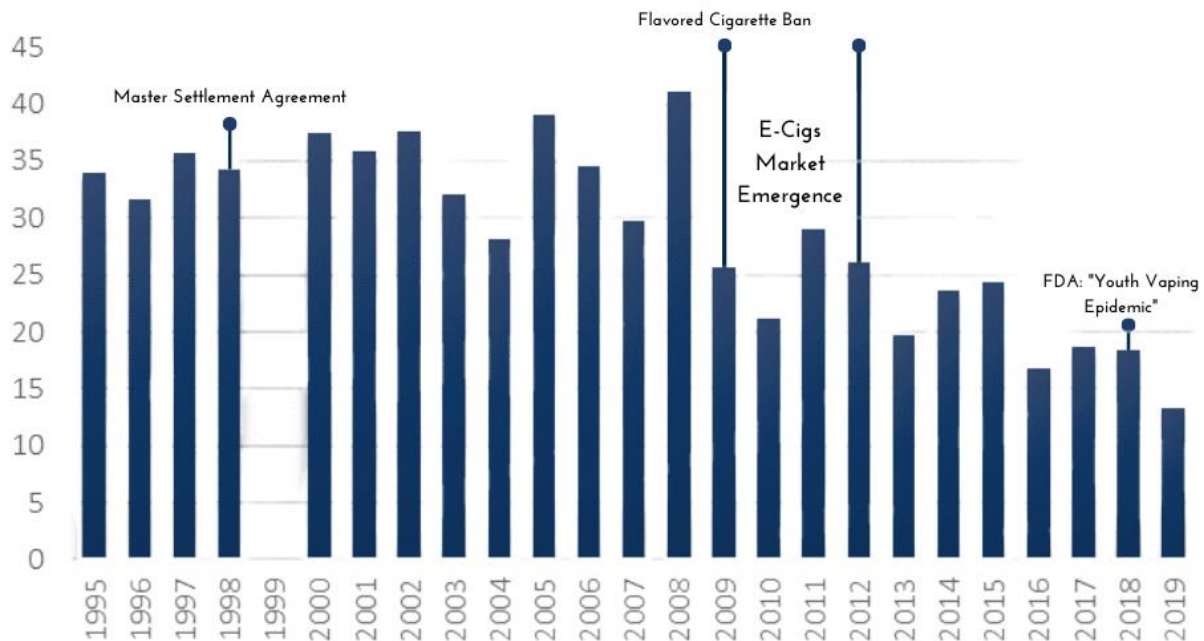
## 1.2 Current Smokers Aged 18 to 24 years old, 1995 - 2019



INDIANA BRFSS

# CURRENT SMOKERS

Percent aged 18 to 24 years old



Sources: Centers for Disease Control & Prevention, Behavioral Risk Factor Surveillance Survey  
For more information, contact Lindsey Stroud at [lindsey@protectingtaxpayers.org](mailto:lindsey@protectingtaxpayers.org)

## CIGARETTE SMOKING 101: INDIANA

#### KEY POINTS

- In 2019, 19.2 percent of Indiana adults smoked combustible cigarettes, this is a **58.4 percent decrease** from 1995.
- Indiana has received **\$2.784 billion** in MSA payments from tobacco companies between 1998 and 2020.
- E-cigarettes appear more effective than MSA payments in reducing smoking rates among younger adults in Indiana.
- **10 years after the MSA, smoking rates increased among 18- to 24-year-olds by 19.8 percent. 10 years after e-cigarettes market emergence, smoking rates among 18 to 24 years old decreased by 48 percent.**



#### 1995

#### ADULT SMOKING

#### 2019

In 1995, 33.9 percent of Indiana adults smoked combustible cigarettes, amounting to 1.47 million adults. Among all adults, 24.3 percent (1.05 million adults) reported smoking every day in 1995.

In 2019, 19.2 percent of adults in the Hoosier State were current smokers, amounting to 991,535 smokers. Further, 8.9 percent of Indiana adults (459,618 adults) were daily smokers in 2019.

Among Indiana adults, **current smoking decreased by 58.4 percent** between 1995 and 2019. Moreover, there are an estimated **58,465 fewer current smokers** in 2019 compared to 1995, and **590,382 fewer daily smokers**.

#### MASTER SETTLEMENT AGREEMENT

In the mid-1990s, Indiana sued tobacco companies to reimburse Medicaid for the costs of treating smoking-related health issues and in 1998, with 45 other states, reached "the largest civil litigation settlement in U.S. history" – or the Master Settlement Agreement (MSA). Under the MSA, states receive annual payments – in perpetuity – from the tobacco companies, while relinquishing future claims against the participating companies.

#### BETWEEN 1998 AND 2020, INDIANA COLLECTED \$2.784 BILLION IN MSA PAYMENTS.

#### EFFECTS OF MSA ON SMOKING RATES

Ideally, given that states sued tobacco companies to offset the costs of smoking-related illnesses, some of the MSA payments would be directed into programs to help smokers quit – or not take up smoking – and should be reflective in adult smoking rates.

In 1998, 26 percent of Hoosier adults smoked combustible cigarettes. This figure fluctuated in between years but remained unchanged in 2008, with 26 percent of adults being current smokers 10 years after Indiana began participating in the MSA. During the same time period, Indiana received \$1.197 billion in MSA payments.

Interestingly, between 1998 and 2008 there was an **increase** in current smoking rates among **18- to 24-year-old adults** in Indiana. In 1998, among current adult smokers in Indiana, **34.3 percent** were 18 to 24 years old. In 2008, this had **increased by 19.8 percent**, to **41.1 percent** of adult smokers in Indiana being between 18 to 24 years old.

#### EFFECTS OF E-CIGARETTES ON SMOKING RATES

Electronic cigarettes and vapor products were first introduced to the U.S. in 2007 "and between 2009 and 2012, retail sales of e-cigarettes expanded to all major markets in the United States."

In 2009, 23.1 percent of adults in Indiana smoked combustible cigarettes amounting to 1.1 million adult smokers. In 2019, 19.2 percent of Indiana adults were current smokers – or 991,535 smokers. This represents a **16.9 percent decrease** in current smoking rates among Arizona adults between 2009 and 2019.

Among current smokers aged **18 to 24 years old**, smoking rates **decreased by 48 percent**. Indeed, in 2009, among current smokers in Indiana, **25.6 percent** were between 18 to 24 years old. In 2019, only **13.3 percent** of current smokers were 18 to 24 years old.

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