

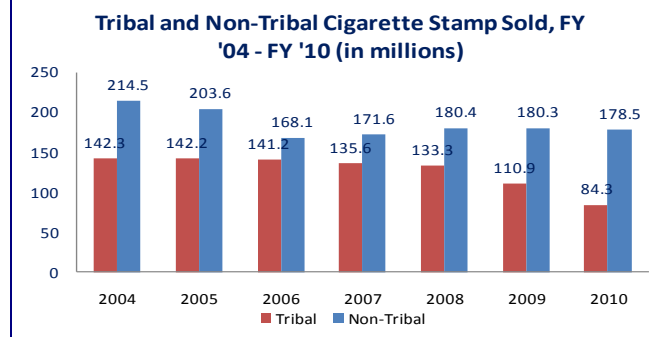
TOBACCO TAXES

Oklahoma voters in 2004 approved SQ 713, which increased the excise tax on cigarettes and other tobacco products, while eliminating the state and local sales tax on these products.

The amount of the tax increase approved by SQ 713 differed for tribal and non-tribal retailers. For non-tribal retailers, the cigarette tax was increased by 80 cents per pack of cigarettes to \$1.03 per pack, with an offsetting elimination of twenty-five cents per pack in state and local sales taxes. For tribal retailers, the situation was more complicated, with retailers subject to one of six different rates depending on their geographic location and status of their compact with the state. The tribal tax rate ranges from a maximum of 85.75 cents per pack for a tribe that has negotiated a revised compact with the state, to a minimum of 5.75 cents for tribes under a "proximity exemption". Taxes were also increased on other tobacco products.

A total of seven health care projects were targeted for support from new revenues generated by the tobacco tax increases, as follows:

- Oklahoma Health Care Authority for Medicaid provider payments and services for children with developmental disabilities (40.1 percent);
- Health Employee and Economy Improvement Act Fund to assist low-income employees buy into employer or public health insurance coverage (33.5 percent).
- Trauma Care Assistance Fund to support emergency trauma care (11.4 percent).
 - The share of revenue going to this Fund was decreased in 2009 to 10.8 percent, with 0.6 percent now going to the Emergency Response System Fund.
- Comprehensive Cancer Center Debt Service Fund for bond payments on a new OU cancer center (4.7 percent);
- OSU College of Medicine Fund for telemedicine and indigent care (4.7 percent);
- Department of Mental Health and Substance Abuse Services for adolescent substance abuse centers and services (4.0 percent);
- Tobacco Prevention and Cessation Fund for anti-tobacco efforts (1.0 percent)
- Breast and Cervical Cancer Treatment Fund to fund Medicaid coverage of cancer treatment (0.7 percent).



Since passage of SQ 713, total cigarette sales have declined in Oklahoma. In FY '10, a total of 262.8 million cigarette stamps were sold, a 26.3 percent decrease compared to FY '04, the last full year under the old tax rate. Tribal sales have fallen sharply the past two years while non-tribal sales have remained steady.

The tax increase, which took effect mid-way through FY '05 (Jan. 1, 2005), initially generated an additional \$38.4 million in FY '05 before rising to \$107.1 million in FY '06, \$112.4 million in FY '07, \$123.1 million in FY '08, and \$135.0 in FY '09. Revenues declined slightly in FY '10 to \$133.2 million.

When the tobacco tax increase was proposed, it was projected to generate \$103.6 million from non-tribal retailers and \$45.9 million from tribal retailers. In FY '10, net revenue collections from non-tribal retailers came in at \$102.6 million in FY '10, almost exactly in line with the state's original projections. Tribal tax collections for health care projects totaled \$30.7 million in FY '10. This is below initial projections, but significantly above collections in the first years under the new law. In FY '06, tribal sales yielded only \$11.6 million.

Most of the initial shortfall in tribal tobacco tax collections was the result of a shift in sales to retailers selling cigarettes with the lowest-tax 5.75 cent proximity exception rate. As a result of various measures aimed at curtailing tribal retailers from purchasing and reselling cigarettes stamped with the lowest rate, the prevalence of the exception rate has declined from over two-thirds of all tribal sales in FY '07 to just 4 percent in FY '10. The state negotiated a new "unity rate" of 51.5 cents per pack with several tribes which took in 2008 and accounted for 45 percent of tribal sales in FY '10.

Allocation of Increased Revenue from Cigarette and Tobacco Products, FY '05 - FY '10						
	2005 Total	2006 Total	2007 Total	2008 Total	2009 Total	2010 Total
Oklahoma Health Care Authority	\$ 15,395,095	\$ 43,302,211	\$ 45,015,862	\$ 49,311,280	\$ 54,082,610	\$ 53,380,419
Health Employee and Economy Improvement Act Fund	\$ 12,873,394	\$ 36,209,940	\$ 37,642,694	\$ 41,224,132	\$ 45,222,944	\$ 44,635,821
Trauma Care Assistance Fund	\$ 4,376,965	\$ 11,311,167	\$ 12,798,389	\$ 14,019,643	\$ 14,317,543	\$ 14,350,042
Emergency Response System Fund	-	-	-	-	\$ 1,058,699	\$ 826,559
Comprehensive Cancer Center Debt Service Fund	\$ 1,803,145	\$ 5,071,903	\$ 5,272,565	\$ 5,775,567	\$ 6,334,123	\$ 6,251,936
OSU-COM Fund	\$ 1,803,145	\$ 5,071,903	\$ 5,272,565	\$ 5,775,567	\$ 6,334,172	\$ 6,251,936
Dept. of Mental Health and Substance Abuse Services	\$ 1,545,646	\$ 4,348,341	\$ 4,520,093	\$ 4,950,773	\$ 5,428,409	\$ 5,357,954
Tobacco Prevention and Cessation Fund	\$ 385,031	\$ 1,083,126	\$ 1,125,937	\$ 1,233,274	\$ 1,352,383	\$ 1,334,828
Breast and Cervical Cancer Treatment Fund	\$ 256,890	\$ 722,453	\$ 751,131	\$ 822,835	\$ 902,632	\$ 890,910
TOTAL HEALTH CARE PROJECTS	\$ 38,439,311	\$ 107,121,044	\$ 112,399,235	\$ 123,113,072	\$ 135,033,516	\$ 133,280,405

Amounts do not include rebates to replace lost sales tax revenues or tribal trust allocations

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