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Missouri
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**Summary
Missouri
Tobacco Tax
Proposal**

February 2006

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The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.

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Background

On January 13, 2006, the Missouri Alliance for Health and Justice and the Committee for a Healthy Future announced they had reached an agreement on a proposed ballot initiative. The proposal calls for an increase in the Missouri cigarette tax by 80 cents per pack and allocation of the proceeds for anti-smoking programs and expanded health care access.

Missouri's cigarette tax of 17 cents per pack ranks 49th in the nation; the tax has not been raised since 1993.¹

Impact of the Tobacco Tax Increase

Should the tobacco tax increase proposal come before voters on the November 2006 ballot, its passage would result in:

- Approximately \$290 million would be used toward health care access for low-income Missourians. About \$102 million of this total would be allocated for restoring some of the Medicaid benefits that have been reduced in recent years. Increased funding would also be provided for payments to physicians, safety net clinics and emergency rooms serving low-income patients.
- Approximately \$61 million would be allocated for smoking education and cessation programs.

¹ T Tax Expenditure Report -January 2005 published by the MO Office of Administration. Page II-3.

Following is a more detailed description and of the revenue and expenditure implications of the ballot initiative.

The Revenue Side

The initiative would make changes to current law on the revenue side.

1. The cigarette tax would be increased by 80 cents per pack of 20 cigarettes. The current tax is 17 cents per pack. Thus the new tax rate would be 97 cents-per-pack. As noted above, the Missouri cigarette tax of 17 cents was last increased in 1993. In addition, with its current tax rate of 17 cents, Missouri ranks 49th among the states; ahead of only South Carolina, whose cigarette tax is 7 cents-per-pack. In Fiscal Year 2005, the cigarette tax yielded about \$99.2 million.
2. The “Other Tobacco Products” (OTP) tax would increase from 10% of the wholesale price to 30% of the wholesale price. This tax generally applies to cigars, pipe tobacco, and chewing tobacco. In Fiscal Year 2005, the OTP tax yielded about \$11.0 million.
3. The actual costs of collecting the tax, not to exceed 2% of the total, may be deducted from the proceeds.
4. The Department of Revenue is authorized to refund any overpayments and erroneous collections.
5. The Director of Revenue is required to determine if the newly-imposed tax has caused a reduction in the amount of revenues collected and deposited to the “State School Monies Fund,” the “Fair Share Fund,” and the “Health Initiatives Fund.” If there is a reduction, then up to 3% of the proceeds from the newly-imposed tax may be allocated to these funds to make up the difference. These three funds receive the proceeds from the current 17 cents-per-pack tax; 9 cents, 4 cents and 4 cents respectively. This is generally referred to as the “hold harmless” provision.

Revenue Impact – If approved on November 7, 2006, the new tax would be effective on January 1, 2007. From the inception of this proposal, it has been agreed that the net revenue proceeds would be \$351 million in the first full year of implementation. The *Missouri Budget Project* analysis indicates that this estimate is certainly conservative. The actual proceeds may be considerably greater. Nevertheless, for purposes of discussing the expenditure side, the following analysis will be based on the assumption that the net proceeds will be \$351 million.

The Expenditure Side

The proposal creates the *Healthy Future Trust Fund*. Within this fund two accounts are established. They are:

A. Tobacco Use, Prevention and Cessation Account – This account is to receive 17.5% of the net proceeds or about \$61 million.

B. Health Care Access and Treatment Account – This account is to receive 82.5% of the net proceeds or about \$290 million.

Within these two accounts, the uses of the money are specified as follows:

Tobacco Use, Prevention and Cessation Account

The proceeds deposited to this account are to be appropriated to the Departments of: Health and Senior Services; Public Safety; and Mental Health. These agencies would be charged with using this for a statewide tobacco control program along the lines recommended by the national *Centers for Disease Control and Prevention*.

The proposal establishes some guidelines for the uses of the revenue. They are:

- At least 15% spent on mass media/public education campaigns
- At least 15% spent on community programs to reduce tobacco use
- At least 5% spent on evaluation of the effectiveness of the other fund expenditures
- Between 15% and 30% spent on tobacco cessation programs including funds allocated to Medicaid recipients for this purpose.

Health Care Access and Treatment Account

The Health Care Access and Treatment Account is divided into 5 additional sub-categories:

1. Medicaid Coverage – This category would receive 35.25% of the \$290 million in the Health Care Access and Treatment Account or about \$102 million. This money would provide medically-necessary services to individuals through the Medicaid or SCHIP programs whose income is less than 200% of the federal poverty guideline. When determining eligibility for receiving these funds, the Department of Social Services shall give preference to those with medical conditions commonly associated with tobacco use.

2. Physician Reimbursements - This category would receive 35.25% of the \$290 million in the Health Care Access and Treatment Account or about \$102 million. This money would be used to supplement reimbursement rates for physicians who treat Medicaid patients. The goal is to establish a Medicaid physician fee schedule comparable to the Medicare fee schedule.

3. Safety Net Clinics - This category would receive 13.0% of the \$290 million in the Health Care Access and Treatment Account or about \$38 million. This money would be used for payments to safety net clinics based upon the number of ambulatory visits

provided to uninsured Missourians with incomes under 200% of the Federal Poverty Level.

4. Trauma Centers and Emergency Rooms - This category would receive 15.25% of the \$290 million in the Health Care Access and Treatment Account or about \$44 million. This money would be used to provide supplemental payments to hospital emergency rooms and trauma centers for facility and physician services rendered to uninsured Missourians and to Missouri Medicaid beneficiaries.

5. Emergency Ambulance Service - This category would receive 1.25% of the \$290 million in the Health Care Access and Treatment Account or about \$4 million. This money would be used to provide supplemental payments to those who provide emergency ambulance service to Missouri Medicaid beneficiaries.

Other Provisions

The proposal provides that the Department of Social Services shall take the steps necessary to apply for federal financial participation in the above programs through the Medicaid program.

The additional revenue generated by this proposal shall not be considered to be “total state revenue” nor shall the expenditure be considered an “expense of state government”. This prevents this program from affecting the overall state budget as a result of the Hancock Amendment.

The net proceeds are to be considered new and additional funding for the activities specified and shall not be used to replace existing funding as it exists on July 1, 2006.

In addition to the above state dollars that would be generated, the proposal is expected to generate an additional \$456.3 million in Federal matching funds through Medicaid and other funding streams.

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