

Tobacco Tax Equity Act of 2015

Bill Summary

The Tobacco Tax Equity Act of 2015 would close tax code loopholes for tobacco products and eliminate tax inequities by setting the federal tax rate for tobacco products at the same level as the federal tax on cigarettes. Establishing tax parity for tobacco products will generate federal revenue, close loopholes that are being exploited, and reduce use of tobacco products.

The 2009 Children's Health Insurance Program Reauthorization increased the federal tax rate on cigarettes and set the tax rate for small cigars and roll-your-own (RYO) cigarettes at the same level as cigarettes. Cigars, smokeless tobacco, and pipe tobacco, however, remain at dramatically lower tax rates than cigarettes. In addition, the current tobacco tax code has numerous loopholes that fail to accurately classify and tax the various different types of tobacco products.

Tobacco is the leading cause of preventable and premature death, annually accounting for 480,000 deaths-- or 1 out of every 5 deaths-- in America. Every day 3,200 youth under the age of 18 try their first cigarette and 1 out of 13 young smokers will die from tobacco-related causes. Tobacco use costs more than \$289 billion a year, including at least \$133 billion in direct medical care for adults and more than \$156 billion in lost productivity

The Tobacco Tax Equity Act would:

- 1) **Establish tobacco tax parity.** Increase currently under-taxed tobacco products on a per unit or per standard package basis to the same level as cigarettes -- \$50.33 per thousand or \$1.00^{66/100} per a pack of 20. Establish parity between pipe and RYO tobacco by increasing the pipe tobacco tax to \$24.78 per pound, thereby eliminating the current tax incentive to falsely label RYO as pipe tobacco. The federal tax for snuff is increased to \$13.42 per pound and chewing tobacco to \$5.37. Smokeless tobacco sold in distinct single use units, such as lozenges, is taxed at \$50.33 per thousand units. For cigars, a new minimum tax is set at 5.033 cents per cigar and products are taxed at a rate of \$24.78 per pound. For processed tobacco, the tax rate is set to \$24.78 per pound when sold to non-permitted manufacturers, the same rate as RYO tobacco and pipe tobacco. All tax rates would be indexed for inflation.
- 2) **Apply tax to new tobacco products.** Requires that a tax equivalent to the cigarette tax is imposed on any tobacco product not taxed under the tobacco tax rates in the Internal Revenue Code, including any product determined to be a tobacco product by the U.S. Food and Drug Administration (FDA). This will ensure that as new tobacco products, including e-cigarettes, are developed and come to market that they are taxed at the same level as cigarettes.
- 3) **Implement changes to the tobacco tax rate.** The new tax rates would take effect 1 month after enactment, with the exception of discrete single-use and processed tobacco which would take effect 6 months after enactment.

Comparison of existing tax rates and tax rates proposed by the Tobacco Tax Equity Act

	Current Tax Rate	Current Amount per Unit or Standard Package	New Tax Rate	New Rate Per Unit or Standard Package
Cigarettes	\$50.33 per thousand	\$1.00 ^{66/100} per pack of 20	Same	Same
Small Cigars	\$50.33 per thousand	\$1.00 ^{66/100} per pack of 20	Same	Same
Roll-Your-Own Tobacco	\$24.78 per pound	\$1.00 ^{66/100} per 20 cigarettes	Same	Same
Pipe Tobacco	\$2.83 per pound	11.5¢ per 20 cigarettes	\$24.78 per pound	\$1.00 ^{66/100} per 20 cigarettes
Processed Tobacco	10lb bag - \$24.78 per pound; Over 10lbs no tax	0 to \$1.00 ^{66/100} per pack of 20	\$24.78 per pound	\$1.00 ^{66/100} per 20 cigarettes
Smokeless- Moist Snuff	\$1.51 per pound	11.3¢ per 1.2 oz. can	\$13.42 per pound	\$1.00 ^{66/100} per 1.2 oz. can
Smokeless- Snus & Dissolvables	\$1.51 per pound	1.6¢ to 7.7¢ per pack of 20	\$50.33 per thousand	\$1.00 ^{66/100} per 20 units
Smokeless- Chewing Tobacco	50.3¢ per pound	9.4¢ per 3 oz. pouch	\$5.37 per pound	\$1.00 ^{66/100} per 3 oz pouch
Regular Cigars-blunts and cigarillos	52.75% of manufacturer price up to 40.26¢ per cigar	up to 40.26¢ per cigar	\$24.78 per pound with a minimum tax of 5.033¢ per cigar	Minimum of 15¢ per 3-pack of cigars
Premium Cigars	52.75% of manuf. price up to 40.26¢ per cigar	up to 40.26¢ per cigar	\$24.78 per pound with a minimum tax of 5.033¢ per cigar	Minimum of 15¢ per 3-pack of cigars

Closing these loopholes will also help Americans reduce or quit using tobacco and would help prevent young people from picking up this terrible addiction. Studies show that increases in tax rates for smokeless tobacco reduce smokeless tobacco prevalence among youth.

Furthermore, this bill would close loopholes that have been exploited by the tobacco industry to avoid paying regulation and taxes for their products. The General Accountability Office found that pipe tobacco sales increased by an estimated 1200% in September 2011 compared to January 2009, while RYO sales dropped by 84%. A CDC study estimates that between August 2009 and August 2011, the sales of RYO as pipe tobacco cost more than \$1.3 billion in lost state and federal revenue.