

A New Cigarette tax in Michigan?

Today:

There is a proposal on the table to increase the tax on cigarettes in Michigan, again. Ostensibly, this would raise new money, some of which would be used for increased health services in Michigan.

Essentially the proposed 75 cent increase would generate \$295 million. Of that \$265 million would go to the Medicaid Trust Fund. This ensures that Medicaid services are the only services that this money can be spent on.

The remaining \$30 million is to go to the Healthy Michigan Fund to fund the following priorities; maternal and child health services to prevent unintended pregnancies in the Medicaid eligible population and to reduce infant mortality, increased tobacco reduction activities and chronic disease prevention.

History:

In 1988 the tax was increased by 4 cents mainly to allow Wayne County to pay back money it owed the state and a smaller portion went to Medicaid and an even smaller portion went to local governments as the Health and Safety Fund. Today the first \$16 million goes to Wayne County for their County Care health insurance program, 25% of the entire amount collected goes to Medicaid and the remaining amount goes to the Health and Safety Fund.

In 1991, a 25 cent cigarette tax was part of Proposal A which shifted the primary funding for K-12 education from the property tax to the sales tax and set aside 6% of the tobacco tax collections for the Healthy Michigan Fund.

In 2003 a 50 cent increase was passed and dedicated to balancing the state budget with portions going to the Medicaid Trust Fund and the Budget Stabilization fund bringing us to the most recent tax proposal.

The following article was taken from the Lansing Bureau on 2/27/04 and discusses, in detail, the issues surrounding this new tax proposal.

Taken from an article By Peter Luke

LANSING -- The state's chart-topping rates of obesity, heart disease and tobacco use are not only bad for people in Michigan; they're for business as well.

Gov. Jennifer Granholm's health and economic development advisers said Thursday that curtailing employer health care costs is critical to making the state competitive in the contest for jobs. And they are deploying economic arguments in the governor's push to hike the cigarette tax by 75 cents a pack.

"There is a direct relationship between the health of individuals, health care costs to employers and ultimately the number of jobs available in our state," said Don Jakeway, president and CEO of the Michigan Economic Development Corp.

Citing data from the national Centers for Disease Control, the MEDC report said Michigan's rate of heart disease -- 218 deaths per 100,000 residents -- is the highest among 18 states used in the comparison.

Michigan ranked sixth in terms of cigarette smoking and second in the rate of obesity. Michigan also ranked second in the prevalence of diabetes.

The data isn't a surprise. Michigan has long lagged the nation in personal health. Detroit was recently labeled the "fattest" metropolitan area in the country.

Granholtz's budget proposal to raise the tax on a pack of cigarettes from \$1.25 to \$2 would raise roughly \$295 million in new revenue. Ninety percent of the proceeds would go to bail out the state's Medicaid health care system for the poor. The remainder would be spent on smoking and chronic disease prevention.

Dr. Kimberly Dawn Wisdom, Michigan's surgeon general, cited a study by General Motors Corp. that an obese employee incurs \$1,500 more in annual health care costs. She said for a smoker the cost is \$3,400 more.

The state's poor health status, she said, "compromises our ability to maintain a competitive business edge."

A broader report on health care costs and Michigan's economy is due late next month. Wisdom called on the business community to rally around a prevention program that she said begins with legislative approval of Granholtz's cigarette tax hike.

"Not only will we improve the health status of citizens of this state, we'll also have a mechanism for which we can enhance revenue," Wisdom said. Granholtz is speaking around the state, this morning in Grand Rapids to an alliance of health care providers and purchasers, preaching the same message. She says that boosting the tobacco tax will encourage 60,000 adults to quit and price out of the cigarette market 94,000 teen-agers, thus reducing the state's long-term health costs.

A Treasury Department tax analysis estimates that cigarette sales in Michigan would drop 15 percent with a 75-cent tax hike. It assumes both fewer smokers and smokers finding "alternative sources of supply," such as smuggled cigarettes. When the tax was last increased, by 50 cents a pack in 2002, sales declined by about 9.5 percent.

Republicans who control the Legislature are skeptical of the tax hike, but aren't ruling it out. Sen. Shirley Johnson, R-Royal Oak, chairwoman of the Senate Appropriations Committee, supports it.

By drawing a connection between health status and jobs, Granholtz is trying to bring business into the debate on her side. So far, however, business groups aren't following. Tricia Kinley, a lobbyist for the Michigan Chamber of Commerce, questioned the economic benefits of the tax, arguing that behavior is hard to curb through tax increases. The chamber opposes the tax increase because it will harm Michigan retailers, particularly those close to the Indiana and Ohio borders, where the taxes are 55.5 cents and 55 cents per pack, respectively.

"People will either keep on smoking and be mad about (the tax hike) or will find a way to buy them cheaper," Kinley said.

The Michigan Manufacturers Association Thursday listed health care cost-containment as one of its major goals. MMA President John MacIlroy said there could be a link between the tax hike and less smoking, but he said the group has not yet taken a position on the tax increase.

Contact Peter Luke at (517) 487-8888 or e-mail him at pluke@boothnewspapers.com.