

**CTP**  
CENTER FOR TAX POLICY

# TAXPAYER REPORT

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**Center for Tax Policy Releases Special Report on Amendment 35  
and its fiscal impact on local government**

October 5, 2004 (Denver, CO) -- Center for Tax Policy (CTP), formally Colorado Public Expenditure Council (CPEC), released a special report today on Colorado's proposed tobacco tax and its fiscal impact on local government. This study projects total loss of revenues from the proposed tobacco tax to state and local governments between \$4.43 and \$7.73 million in the first year of the tax due to the purchasing changes of the consuming public.

CTP conducts independent research and publishes analyses of tax and finance issues. This study is one of its newest special reports and was conducted using funds provided by Altria Corporate Services Inc., on behalf of Philip Morris USA, with the stipulation that all findings would be made available to the general public.

"As with any change in tax policy, the effects extend beyond a simple increase in revenue projected to be collected from the new tax," states Phyllis Resnick, research director. In Colorado, the \$0.20 per pack excise tax supports the general operation of

both the state and local governments. “Tax changes generally have multiple effects, and this one, if approved, will as well,” she continues. “The variance in the estimates of lost revenue for local governments is accounted for by modeling different elasticity scenarios,” she said.

The CTP findings indicate that a 320% increase in the cigarette tax will also create behavioral changes in consumers, particularly for products that either have close substitutes or alternate sources.

Among some of the findings:

- Research indicates that the most significant effect will be felt by the City and County of Denver, with a projected revenue loss varying between just over \$205,000 to just over \$357,000 depending upon the elasticity of demand. “Although these amounts represent a small portion of the total budget for Denver, these revenues would support, for example, the salaries of 3 to 6 Denver city firefighters,” states Resnick. (See Appendix A that lists the effect of the reduction in the local share of the cigarette excise tax on a county level and municipal level.)
- The ballot requirement that 3% of the revenues from the tax be appropriated for health related purposes, leaves local governments vulnerable to losing their presumed share since Colorado’s municipal governments, with the exception of the consolidated city/county governments of Denver and Broomfield, do not currently deliver health related programs. Although the ballot language does provide for the dedication of 3% of the revenue stream from the new tax to hold state and local governments harmless, under elasticity scenarios in excess of 0.3, the 3% revenue

stream is not sufficient to fully compensate for the overall loss in total state and local revenue due to reduced cigarette consumption.

- The availability of alternative methods and emerging technologies for consumers to purchase cigarettes, such as the Internet, imposes unintended, and previously unstudied fiscal impact on the state and local governments in Colorado. The availability of such alternative means to purchase tobacco products has steadily increased over the past 4 years. (See Appendix B of the Study).

In addition, the CTP study estimates the revenue generation potential of the \$0.64 increase in the cigarette tax to vary between \$155 and \$166 million, depending upon the elasticity scenario under which the calculation is performed. These estimates are marginally lower than the latest official estimates provided by the state.

The Center for Tax Policy is a non-partisan and non-profit organization that disseminates information to assist business and government leaders in developing and implementing fair tax policy in Colorado. CTP has expanded its research capabilities to undertake more research projects on a local, regional and national basis.

For more information on CTP visit [www.centerfortaxpolicy.org](http://www.centerfortaxpolicy.org) where a copy of the full study is available.

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