TAX FOUNDATION

June 28, 2007

# A State-by-State Estimate of the Impact of SCHIP Expansion and a 156 Percent Cigarette Tax Hike

by Gerald Prante

**Fiscal Fact No. 88**

Here we provide a simple estimate of the spending and tax changes that would occur in each state if Senator Gordon Smith's proposal to expand federal health spending by raising the federal excise tax on cigarettes becomes law.

Senator Smith's bill would have the federal government more than double the funding of the State Children's Health Insurance Program (SCHIP). This federal program currently spends between $5 and $6 billion each year, and Sen. Smith would spend $46.5 billion more over five years. SCHIP was originally designed to fund health insurance for children in households that earn between 100 percent and 185 percent of the poverty guidelines ($38,203 for a family of four), but administrators have permitted states to buy insurance for adults without children and for higher-earning households, those within 300 percent of the poverty guideline ($61,950 for a family of four).[1]

The funding mechanism would be a federal cigarette tax hike, from 39 cents to $1 per pack. Currently, states add an average tax of $1 per pack.[2]

The basic finding is that some states will be dramatic winners and others big losers. There is little correlation between SCHIP spending and smoking rates, even though both correlate generally with poverty. This is largely caused by the considerable variation in SCHIP spending even among states with similarly large populations of children in low-income households.

In economic terms, then, Senator Smith is suggesting that the federal government more than double its most "regressive" tax—that is, the tax that hits the poor hardest. Perhaps to mitigate this hit on the poor, he suggests that the government spend the funds on one of its most "progressive" programs, that is, a program originally designed to funnel money to low-income households with children. However, because states make their own SCHIP policies, the poor in some states will face the higher cigarette tax but receive little in extra SCHIP spending.

Low-income families would be made much better off as a group if the SCHIP expansion were limited to poor families and funded by raising a tax that is paid by a broad swath of the population such as the income tax. This alternative approach—raising a tax that a majority pays rather than a small minority like smokers—is consistent with sound tax policy. The fact that smokers are poor as a group only makes this targeted tax policy worse.

Table 1 ranks states based upon their net fiscal position from the 156 percent increase in the cigarette tax. We show the average tax increase per household for each state for the five-year period along with the average SCHIP spending increase per household during that time period.

**Table 1. Impact Per Household of Funding Higher SCHIP Spending with a 61-Cent-Per-Pack Tax Hike on Cigarettes, 2007-2011**

| State | Average Tax Hike | Average SCHIP Increase | Net Fiscal Impact (Spending Gain Minus Tax Hike) | Rank (1 is Where Spending Outweighs Taxes) |
|---|---:|---:|---:|---:|
| U.S. | $415 | $415 | $0 | - |
| Alabama | $451 | $379 | -$72 | 36 |
| Alaska | $402 | $642 | $240 | 2 |
| Arizona | $371 | $530 | $159 | 4 |
| Arkansas | $455 | $491 | $36 | 14 |
| California | $378 | $534 | $156 | 5 |
| Colorado | $372 | $336 | -$36 | 31 |
| Connecticut | $409 | $323 | -$86 | 41 |
| Delaware | $405 | $381 | -$24 | 26 |
| D.C. | $269 | $362 | $93 | 9 |
| Florida | $419 | $401 | -$18 | 22 |
| Georgia | $434 | $442 | $8 | 19 |
| Hawaii | $408 | $390 | -$18 | 22 |
| Idaho | $390 | $484 | $94 | 8 |
| Illinois | $424 | $406 | -$18 | 22 |
| Indiana | $457 | $383 | -$74 | 37 |
| Iowa | $425 | $304 | -$121 | 47 |
| Kansas | $419 | $629 | $210 | 3 |
| Kentucky | $484 | $399 | -$85 | 40 |
| Louisiana | $443 | $458 | $15 | 17 |
| Maine | $450 | $343 | -$107 | 44 |
| Maryland | $403 | $407 | $4 | 21 |
| Massachusetts | $426 | $293 | -$133 | 48 |
| Michigan | $426 | $369 | -$57 | 34 |
| Minnesota | $390 | $306 | -$84 | 39 |
| Mississippi | $433 | $537 | $104 | 7 |
| Missouri | $450 | $317 | -$133 | 48 |
| Montana | $413 | $382 | -$31 | 29 |

| | | | | |
|---|---|---|---|---|
| Nebraska | $393 | $368 | -$25 | 28 |
| Nevada | $391 | $445 | $54 | 11 |
| New Hampshire | $461 | $313 | -$148 | 51 |
| New Jersey | $438 | $443 | $5 | 20 |
| New Mexico | $365 | $607 | $242 | 1 |
| New York | $403 | $431 | $28 | 16 |
| North Carolina | $414 | $379 | -$35 | 30 |
| North Dakota | $372 | $332 | -$40 | 32 |
| Ohio | $426 | $315 | -$111 | 46 |
| Oklahoma | $446 | $496 | $50 | 12 |
| Oregon | $378 | $411 | $33 | 15 |
| Pennsylvania | $404 | $297 | -$107 | 44 |
| Rhode Island | $430 | $469 | $39 | 13 |
| South Carolina | $445 | $366 | -$79 | 38 |
| South Dakota | $401 | $377 | -$24 | 26 |
| Tennessee | $446 | $404 | -$42 | 33 |
| Texas | $415 | $491 | $76 | 10 |
| Utah | $436 | $562 | $126 | 6 |
| Vermont | $432 | $291 | -$141 | 50 |
| Virginia | $411 | $325 | -$86 | 41 |
| Washington | $409 | $348 | -$61 | 35 |
| West Virginia | $473 | $376 | -$97 | 43 |
| Wisconsin | $391 | $372 | -$19 | 25 |
| Wyoming | $392 | $402 | $10 | 18 |
| Source: The methodology for the results presented utilizes various sources of data. In order to allocate the SCHIP expansion proposal, we use a combination of current SCHIP funding to each state along with poverty status for children by state courtesy of the Census Bureau. For the cigarette tax, we use CDC cigarette consumption data by state, thereby assuming (like CBO and others) that the full burden of the tax is passed along to consumers. | | | | |

The five states that would come out furthest ahead are New Mexico, Alaska, Kansas, Arizona, and California. They combine comparatively low smoking rates with fairly large populations of households eligible for SCHIP.

The five states that would fare the worst are New Hampshire, Vermont, Missouri, Massachusetts, and Iowa. Iowa and Vermont have low levels of children in poverty and above-average cigarette consumption, while Missouri has a very high smoking rate.

**Conclusion**
The data presented here indicate that a majority of states (30) will pay more than they receive from Senator Smith's proposal. If a state has high SCHIP spending but low smoking rates, it could gain a large federal subsidy. Similarly, a large smoking population with low SCHIP spending could make a state a big loser. Because there is little correlation between the average

tax hike and average SCHIP spending due to differences in state SCHIP policy, some states do see dramatic changes.

If SCHIP expansion were funded by an across-the-board increase in federal income taxes, low-income families would be much better off as a whole, and the net fiscal redistribution from high-income states to low-income states would be greater.

---

**Notes**

1. SCHIP uses the Department of Health and Human Services' poverty guidelines, which in 2007 range from $10,210 for a single person to $34,570 for a family of eight, so a large household with over $100,000 in income can qualify for SCHIP in some states that set eligibility at 300 percent of poverty. See http://aspe.hhs.gov/poverty/07poverty.shtml for poverty guidelines, and for a description of SCHIP, see "The State Children's Health Insurance Program," May 2007, Congressional Budget Office, at http://www.cbo.gov/ftpdocs/80xx/doc8092/05-10-SCHIP.pdf.

2. Six states charge $2 or more per pack: Arizona, Maine, Michigan, Washington, Rhode Island and New Jersey. Four states charge 20 cents or less: Tennessee, Mississippi, Missouri and South Carolina. The $1 figure cited is a weighted average calculated by the author.



Tax Foundation
2001 L Street NW, Suite 1050
Washington, DC 20036
Ph: (202) 464-6200
Fax: (202) 464-6201
www.taxfoundation.org