

## OREGON SMOKERS' CONTRIBUTIONS TO THE STATE ECONOMY - FY2012

In 2012, the 19.7% of adults who comprise OREGON'S smoker population paid more than their fair share in taxes and tobacco settlement payments because they chose to buy a legal product:

Excise Taxes	Tobacco Settlement Payments	Total Smoker Payments FY2010
\$204,179,000	\$78,940,000	\$283,119,000

**TOTAL TOBACCO SETTLEMENT PAYMENTS TO OREGON TO DATE (1998-2012):** **\$1,016,900,000**

### OREGON Smokers' Economic/Tax Profile 2011:

- OREGON smokers' median household income \$23,881
- OREGON nonsmokers' median household income \$45,014
  
- 53.5% of OREGON smokers had household incomes LESS THAN \$25,000.
- Only 10.2% of OREGON smokers had household incomes EQUAL TO or GREATER THAN \$75,000.

The impact of smoker payments on the incomes of working families was disproportionately greater – more than FIVE TIMES higher – than the impact on the minority of smokers who have higher incomes.

### Tax and settlement payment liability paid only by smokers in FY2012:

- Total average paid per OREGON smoker in excise taxes \$349
- Cost per OREGON smoker for settlement payments to OREGON \$135
- Total annual payments to OREGON per smoker **\$484**

### Payments by OREGON smokers in FY2012 were:

- More than 2.5 times as large as the state liquor apportionment revenues in the General Fund for FY2012 (\$110.2 million)
- Nearly 6 times as large as Oregon insurance tax revenues for FY2012 (\$47.4 million)
- Nearly 3 times as large as Oregon estate tax revenues for FY2012 (\$101.8 million)

### OREGON smoker payments of OVER \$283 MILLION were large enough to support FY2012 funding for:

- Fish and Wildlife Dept. (\$160.2 million) AND Oregon Health and Science University (\$83.5 million)
- OR
- Business Development Department (\$239.3 million) AND Oregon Student Access Commission (\$62 million)
- OR
- Department of Environmental Quality (\$163.1 million)

### TOTAL SMOKER CIGARETTE PAYMENTS TO OREGON FY2011

Per year:	\$283,119,000
Per day:	\$ 777,266
Per hour:	\$ 32,386
Per minute:	\$ 540
Per second:	\$ 9.00

**CIGARETTES DON'T PAY TAXES – OREGON SMOKERS DO!!**



## The Economic Impact of Local Cigarette Taxation on Oregon State Cigarette Revenues

The legislature is considering various proposals that would allow Oregonian localities to tax cigarettes. This change would likely result in lower state cigarette tax revenues. Oregon tax-paid sales could fall due to:

- **Fewer purchases from Washington consumers escaping their state's high-tax rates.** Oregonian merchants on the Washington border sell a considerable number of cigarettes to Washington residents thanks to a large comparative tax advantage over their Washington rivals. The Washington State cigarette excise tax is \$3.025 per pack compared with the Oregon tax of \$1.18. Oregon merchants also benefit from the state's lack of a sales tax. We estimate that 16% of all Oregon tax-paid cigarette sales come as a result of this cross-border dynamic.

If just a few key counties around the Portland area imposed a new local tax it is likely that many Washington shoppers could reduce their tobacco business with Oregon. If so Oregon could lose state tax cigarette excise revenue from its \$1.18 cigarette tax.

- **Oregon residents along the border shopping in low-tax states such as Idaho (57-cents per pack), Nevada (80-cents per pack) and California (87-cents per pack).**
- **A general fall in demand for Oregon tax-paid cigarettes.**

By opening the door to local taxation, Oregon would effectively lose control over the tax base. The "tail would be wagging the dog," as changes made at the local level would come at the expense of the state of Oregon. Local taxation can create a feeding frenzy of sorts as localities seek to capture more revenue for themselves at the expense of the state. In Virginia, where local cigarette taxation is allowed, just 4 cities (Hampton, Newport News, Norfolk, and Virginia Beach) raised cigarette taxes 16 times between 2000 and 2012.

The state of Oregon earmarks much of its tax revenue. **For each state cigarette excise dollar lost to as a result of local taxation:**

- Nearly 73-cents would be taken out of the Health Plan;
- Nearly 19-cents would be lost from the state General Fund;
- Nearly 3-cents would be taken from tobacco cessation programs;

- And, ironically, approximately 4-cents would be taken out of funds dedicated to city and county governments. Senior and disabled transit funds would lose 2-cents on each dollar lost to the state.<sup>1</sup>

### The Impact of Limited Local Cigarette Excise Tax Adoption along the Washington Border

While opening the door to local cigarette taxation offers a variety of possible scenarios, this scenario assumes that only the counties in the populous Portland area (Clackamas, Multnomah, and Washington) take advantage of the option. Oregon state cigarette revenues would fall since some Oregon consumers would reduce their consumption. In addition, some Washington shoppers may reduce their purchases in Oregon due to the higher local tax and the inconvenience of traveling to another Oregon county.

In FY2012 Oregon tax-paid per capita sales (44.0 packs) were 116% greater than such sales in Washington (20.3 packs). This has occurred even though adult smoking prevalence in Oregon (19.7%) is relatively close to the same measure in Washington (17.7%). This suggests that Oregon merchants sell a considerable amount of tobacco products to Washington consumers. Most likely the largest portion of such activity takes place in the relatively populous Portland-Vancouver area. It is estimated that approximately 20-million packs of cigarettes are sold by merchants in the tri-county area (Clackamas, Multnomah and Washington counties) to out-of-state customers.<sup>2</sup>

For every 20-cents worth of local tax in the three counties, we estimate that **Oregon would lose approximately \$2 million in state excise tax revenue.**<sup>3</sup> Thus, a 60-cent local tax, for example, would mean a \$6 million loss to the Oregon state treasury.

### The Impact of Broad-based Adoption of Local Cigarette Excise Taxes

Assuming that all Oregon counties adopt a local cigarette tax, Oregon tax-paid sales would fall as the tax advantage with Washington diminishes and consumers seek lower priced product in low-tax neighboring states on the

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<sup>1</sup> Oregon Legislative Revenue Office, 2013 Oregon Public Finance Basic Facts, Research Report #1-13, 21 February, 2013. Online at: <http://www.leg.state.or.us/comm/lro/2013BasicFacts.pdf>. Oregon's OTP tax is also earmarked, though less heavily than the cigarette tax.

<sup>2</sup> While Oregon tax-paid per capita sales were 44 packs in FY2012, we estimate that approximately 16% of tax-paid sales are "exports" to Washington. This makes the resident per capita sales equal to 37 packs, and exported per capita sales about 7 packs. The number of exported packs in the tri-county area would be higher due to its proximity to Washington. Its export share is estimated at about 25% of all tax-paid sales, or about 20 million packs.

<sup>3</sup> The current excise and sales tax difference advantage with Washington is \$2.35 per pack. Every 20-cent increase reduces this advantage by 8.5%, or in pack terms 1.7 million packs. However, we assume other Oregon counties would capture 50% of this business so the loss to the state would 850,000 packs. In addition some Oregonians may consume less and we use a standard consumption elasticity (.4) to derive another 810,000 packs. Thus the total Oregon pack loss would be about 1.7 million packs, which equal to approximately \$2 million in state excise tax revenues.

southern and eastern borders. For every 20-cents worth of tax (assuming all counties tax equally):

- **Oregon would see state cigarette excise taxes fall 3.6%, or by 6.2 million packs.**
- **Oregon would lose \$7.3 million in state excise tax revenues.** The Health Plan would lose \$5.3 million for each 20-cents worth of local tax assessed.



**HB 2870 Implications for the Oregon Health Plan,  
Oregon's Economy, and Small Business**

The provisions of House Bill 2870 would allow Oregon counties express authority to impose a local tax on cigarettes and other tobacco products. Inasmuch as the Oregon Health Plan (OHP) receives the largest percentage of State cigarette excise tax revenues, the impact of the imposition of a local tax by one or more Oregon counties would have significant negative financial implications for the Oregon Health Plan.

The potential impacts to the funding of the Health Plan are a loss of \$16.0 MILLION annually from reduced cross-border Washington consumers, and an equal amount or more from increased tax evasion by Oregon consumers. The total potential loss to the Oregon Health Plan would be over \$30 million annually.

Washington tobacco consumers purchase approximately 47 million packs of cigarettes in Oregon annually, providing over \$40 million in funding for the Oregon Health Plan (\$1.18 tax x 47 million x 72.6%). Washington's \$1 additional excise tax increase in 2011 generated nearly half of these sales, or 23 million packs. Of this incremental 23 million packs, most are purchased in the following border counties:

County	Packs
Multnomah County	8.2 million
Columbia County	3.5 million
Clackamas County	1.2 million
Clatsop County	.9 million
Umatilla County	2.4 million
Washington County	2.3 million
Estimated total packs	<b>18.5 million</b>
Estimated revenue @ \$1.18 / pack	\$21.9 million
Revenue stream to OHP (72.6%)	\$15.8 million

If these six counties established a local \$1 per-pack tax, most of these recent incremental cross-border purchases would disappear overnight, and the funding stream to the OHP would be reduced by approximately \$16 million per year.

In addition, analysis indicates that many more Oregon consumers will switch to untaxed sources of product when county taxes are imposed. Currently about 16% of Oregon tobacco

consumers avoid state tobacco excise taxes. By comparison, Washington state collects taxes on less than half of its cigarette sales. (Tax Foundation Fiscal Fact 1/10/13). A \$1 county tax would place Oregon's tax about mid-point between these two data points, so it is conservative to expect an additional loss of 15% of Oregon consumer pack sales, or 18 million packs; 169 million total less Washington's 47 million = 122 million x 15% = 18.3 million lost to non-taxed sources.

Using the same math for the OHP, 18.3 million x \$1.18 = \$21.6 million lost state excise tax x 72.6% = an additional \$15.7 million lost revenue to the OHP.

Total impact of \$43.5 million lost state excise taxes, of which \$31.5 million would be lost for OHP.

We must also consider future State and County tax increases, and this yet additional impact on the OHP. If there is a state increase of an additional \$1 per pack, the counties could also add an additional \$1 per pack, placing Oregon well above Washington's tax, and potentially in the 60%-plus tax evasion range with New York State.

### Losses to Oregon's Economy

The average retail price for a pack of cigarettes is \$5.03, with additional "marketbasket" sales of other items of \$2.59 per pack, for a total of \$7.62 for each transaction. The combined pack sales losses of 36.8 million (18.5 cross border + 18.3 to black/gray market) result in a loss of legitimate taxable retail sales of \$280 million.

At an approximate combined margin of 21.1% (12% tobacco, 39% marketbasket) this tax destroys \$59.2 million in margin dollars. Margin dollars pay employees, employee benefits, supplier companies, and further multiply throughout Oregon's economy. These payments to employees and Oregon small businesses sustain jobs, and are critical to maintaining and growing Oregon's currently fragile economy.

Counties might collect the assumed \$1.00 tax, but it will be on reduced sales of only 132 million packs (169 million packs today, less 36.8 million packs lost as shown above), resulting in tax collections of about \$132 million.

Here is a summary of the effects of a \$1.00 county tax:

132.0 million in county revenue
-43.5 million in lost state excise tax
-59.2 million in lost in retail employee pay, benefits, and supplier jobs
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29.3 million net new tax revenue

For each dollar of tax raised, this proposed taxing authority will transfer or destroy 78 cents of other economic benefits, which is a very expensive and disruptive way to attempt to help counties balance their budgets.

## OREGON – CIGARETTE TAX RECEIPT HISTORY

Receipts based on fiscal years concluding June 30

1990 / 1991	\$79,578,151	
1991 / 1992	\$81,092,627	1.90%
1992 / 1993	\$79,630,393	(-1.80%)
1993 / 1994 <sup>1</sup>	\$95,224,881	19.58%
1994 / 1995	\$110,062,143	15.58%
1995 / 1996	\$103,676,786	(-5.80%)
1996 / 1997 <sup>2</sup>	\$138,247,338	33.34%
1997 / 1998	\$183,510,680	32.74%
1998 / 1999	\$173,400,494	(-5.51%)
1999 / 2000	\$163,960,272	(-5.44%)
2000 / 2001	\$157,909,508	(-3.69%)
2001 / 2002	\$154,981,172	(-1.85%)
2002 / 2003 <sup>3</sup>	\$221,962,038	43.22%
2003 / 2004 <sup>4</sup>	\$240,069,021	8.16%
2004 / 2005	\$217,784,751	(-9.28%)
2005 / 2006	\$238,695,926	9.60%
2006 / 2007	\$240,164,142	0.62%
2007 / 2008	\$222,203,100	(-7.48%)
2008 / 2009	\$215,331,515	(-3.09%)
2009 / 2010	\$201,863,281	(-6.25%)

1 Tax rate increase from \$0.28 to \$0.33 November 1, 1993 and from \$0.33 to \$0.38 January 1, 1994

2 Tax rate increase from \$0.38 to \$0.68 effective February 1, 1997

3 Tax rate increase from \$0.68 to \$1.28 effective November 1, 2002

4 Tax rate decreased from \$1.28 to \$1.18 effective January 1, 2004 (BM #30)

2010 / 2011	\$211,645,072	4.84%
2011 / 2012	\$203,486,635	(-3.85%)
July – December 2012	(\$104,153,686)	

**Other Tobacco Products Tax**

<b>2001/02</b>	<b>\$20,053,176</b>
<b>2002/03</b>	<b>\$20,933,588</b>
<b>2003/04</b>	<b>\$25,278,884</b>
<b>2004/05</b>	<b>\$25,961,261</b>
<b>2005/06</b>	<b>\$31,226,297</b>
<b>2006/07</b>	<b>\$30,936,052</b>
<b>2007/08</b>	<b>\$32,755,866</b>
<b>2008/09</b>	<b>\$32,873,951</b>
<b>2009/10</b>	<b>\$37,390,367<sup>5</sup></b>
<b>2010/11</b>	<b>\$51,154,246</b>
<b>2011/12</b>	<b>\$52,167,233</b>
<b>July – December</b>	<b>(\$30,646,220)</b>

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Tax rate modified for moist snuff to \$1.78 / ounce (HB 2672)  
 Provided by Public Affairs Counsel