

# Discussion of Inhalant Delivery Systems and Products as it Relates to Taxation

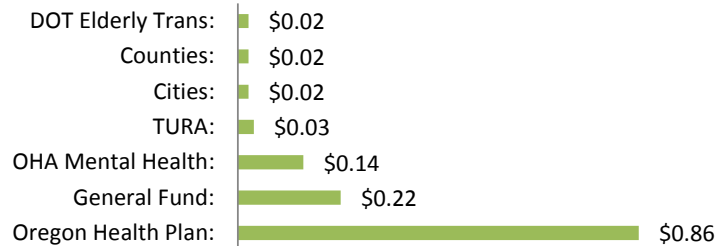
Presented to House Committees on Revenue and Health Care  
LRO - 2/24/2016

# Cigarette & OTP Tax Trends

Cigarette and Other Tobacco Products Taxes (\$ Millions)							
Fiscal Year	Cigarette Tax Rate	Cigarettes		Other Tobacco		Total	
		Revenue	Change	Revenue	Change	Revenue	Change
2004-05	\$1.18	217.8	-9.3%	26.0	2.8%	243.8	-8.1%
2005-06	\$1.18	238.7	9.6%	31.2	20.0%	269.9	10.7%
2006-07	\$1.18	240.2	0.6%	30.9	-0.8%	271.1	0.4%
2007-08	\$1.18	222.2	-7.5%	32.8	5.9%	255.0	-6.0%
2008-09	\$1.18	215.3	-3.1%	32.9	0.4%	248.2	-2.6%
2009-10	\$1.18	201.9	-6.3%	37.4	13.7%	239.3	-3.6%
2010-11	\$1.18	211.6	4.8%	51.2	36.8%	262.8	9.8%
2011-12	\$1.18	203.5	-3.9%	52.2	2.0%	255.7	-2.7%
2012-13	\$1.18	198.5	-2.4%	56.7	8.7%	255.2	-0.2%
2013-14	\$1.31	200.6	1.1%	56.2	-0.9%	256.8	0.6%
2014-15	\$1.31	206.1	2.7%	55.7	-0.8%	261.8	1.9%

## Cigarette Tax Distribution

as of 1/1/2016



Note: Numbers do not add up to \$1.32 due to rounding

## Distribution of Other Tobacco Products Tax (1/1/2016)

General Fund:	53.84%
OR Health Plan:	41.54%
TURA:	4.62%

Table B.6 Cigarette and Tobacco Tax Distribution

March 2016

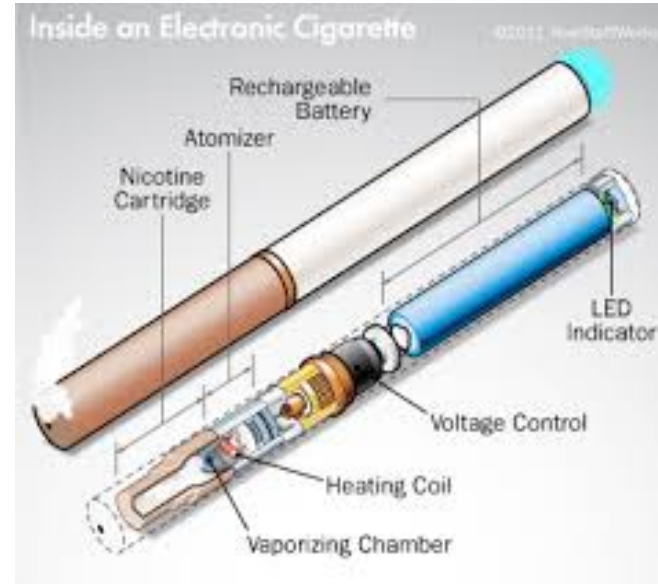
**TABLE B.6**

**Cigarette & Tobacco Tax Distribution (Millions of \$)**

	Cigarette Tax Distribution*						Other Tobacco Tax Distribution				
	General Fund	Health Plan	Tobacco Use Reduction	Mental Health	State Total	Cities, Counties & Public Transit	Total	General Fund	Health Plan	Tobacco Use Reduction	State Total
<b>Distribution Forecast*</b>											
2013-14	36.077	140.132	5.675	7.673	189.557	11.086	200.643	30.181	23.416	2.604	56.202
2014-15	37.184	136.842	5.633	15.675	195.334	10.727	206.061	29.927	23.228	2.583	55.738
2013-15 Biennium	73.260	276.974	11.308	23.348	384.891	21.813	406.704	60.108	46.644	5.188	111.940
2015-16	35.914	137.066	5.563	18.741	197.284	10.831	208.115	30.489	23.524	2.616	56.629
2016-17	33.058	128.837	5.139	21.037	188.072	10.278	198.350	31.718	24.472	2.722	58.912
2015-17 Biennium	68.973	265.903	10.702	39.778	385.356	21.109	406.465	62.208	47.996	5.338	115.542
2017-18	31.381	122.302	4.878	20.620	179.181	9.757	188.938	32.638	25.182	2.801	60.621
2018-19	28.007	115.094	4.591	20.135	167.827	9.182	177.009	33.585	25.912	2.882	62.379
2017-19 Biennium	59.388	237.396	9.469	40.755	347.008	18.939	365.947	66.223	51.094	5.683	123.000
2019-20	28.007	109.150	4.354	19.096	160.606	8.708	169.314	34.559	26.664	2.965	64.188
2020-21	26.403	102.898	4.104	18.002	151.407	8.209	159.616	35.561	27.437	3.051	66.049
2019-21 Biennium	54.409	212.048	8.458	37.097	312.013	16.916	328.930	70.120	54.100	6.017	130.237
2021-22	25.016	97.494	3.889	17.056	143.456	7.778	151.233	36.592	28.233	3.140	67.965
2022-23	23.637	92.118	3.674	16.116	135.545	7.349	142.894	37.653	29.051	3.231	69.936
2021-23 Biennium	48.653	189.613	7.563	33.172	279.001	15.127	294.127	74.246	57.284	6.371	137.900
2023-24	22.218	86.591	3.454	15.149	127.412	6.908	134.320	38.745	29.894	3.325	71.964
2024-25	20.885	81.396	3.247	14.240	119.768	6.493	126.261	39.869	30.761	3.421	74.051
2023-25 Biennium	43.104	167.987	6.701	29.389	247.180	13.401	260.581	78.614	60.654	6.746	146.015

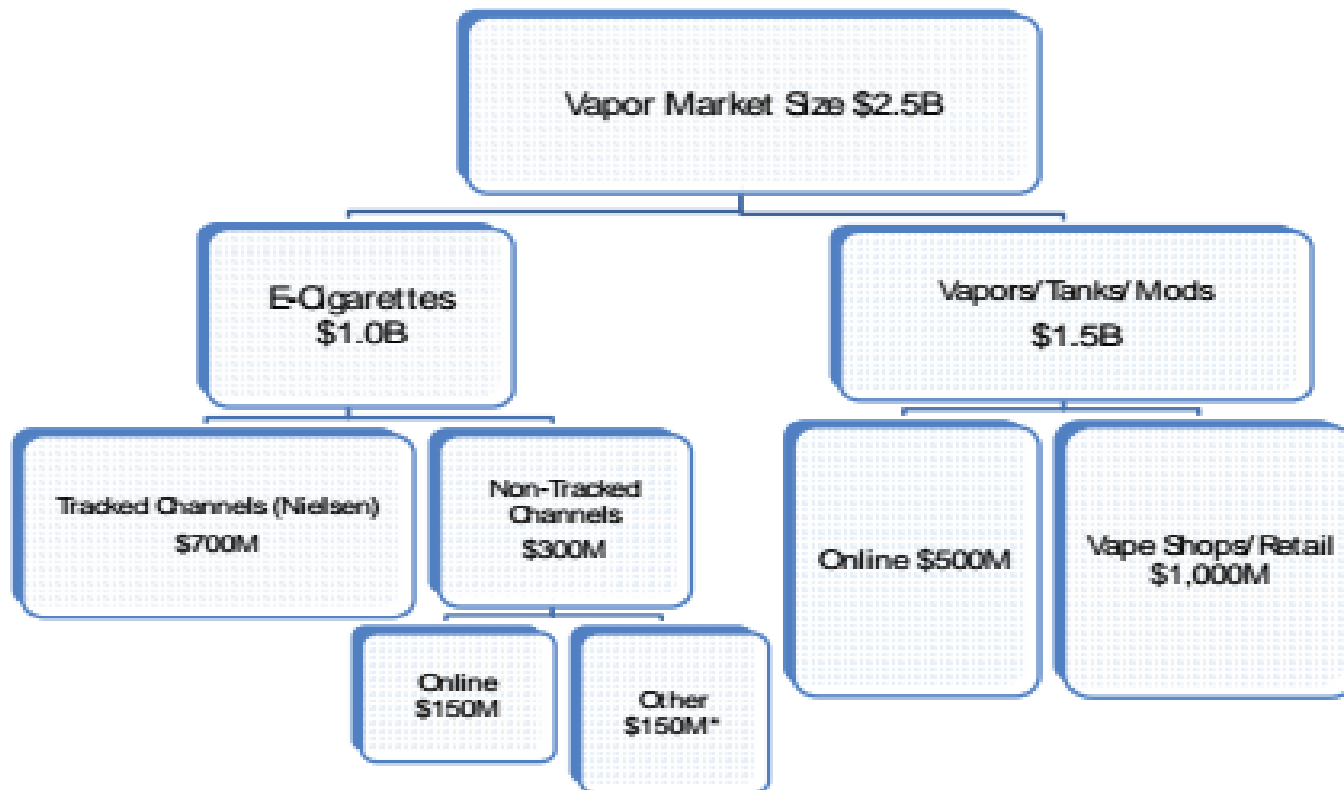
\* Prior to January 1, 2014 the cigarette tax per pack totaled \$1.18 with the following distribution: \$0.8574 to the Health Plan, \$0.22 to the state general fund, \$0.0342 to Tobacco Use Reduction and \$0.0684 to Cities, Counties and Public Transit. Following the passage of HB 3601 during the 2013 Special Session, the following changes were made to cigarette taxes. Beginning January 1, 2014 taxes per pack were raised \$0.13 to a total of \$1.31 per pack. Beginning January 1, 2016 taxes will increase an additional \$0.01 for a total of \$1.32 per pack with a further \$0.01 increase on January 1, 2018 for a total of \$1.33 per pack. The distribution of the \$0.13 increase beginning in 2014 is split \$0.10 to Mental Health, \$0.013 to the state general fund, \$0.002 to Tobacco Use Reduction and \$0.016 to the Health Plan. Beginning January 1, 2016 the full tax increase of \$0.14 per pack relative to pre-2014 tax rates, is dedicated to Mental Health. Similarly the full \$0.15 post January 1, 2018 is likewise dedicated to Mental Health.

# Vapor Products



# Vapor Market

**Exhibit 1. Estimated 2014E \$ Sales of the U.S. Vapor Market**



Source: Nielsen C-Store Database, Wells Fargo Securities, LLC estimates

\*Other Non-Tracked channels include tobacco-only outlets and other e-cig retail locations.

- 2015 Market Estimated at \$3.5B (Source: Wells Fargo)

# Vapor Market Trends

- Strong positive growth, but year over year growth is growing at a slower rate from previous years
- Room for improvement in data tracking
- Forecasts of growth vary depending upon source of forecast
- Greater growth expected in Tanks / Mods segment
- Growth trends based on assumption of continual improvement of products
- Potential government involvement in market

# Usage Statistics

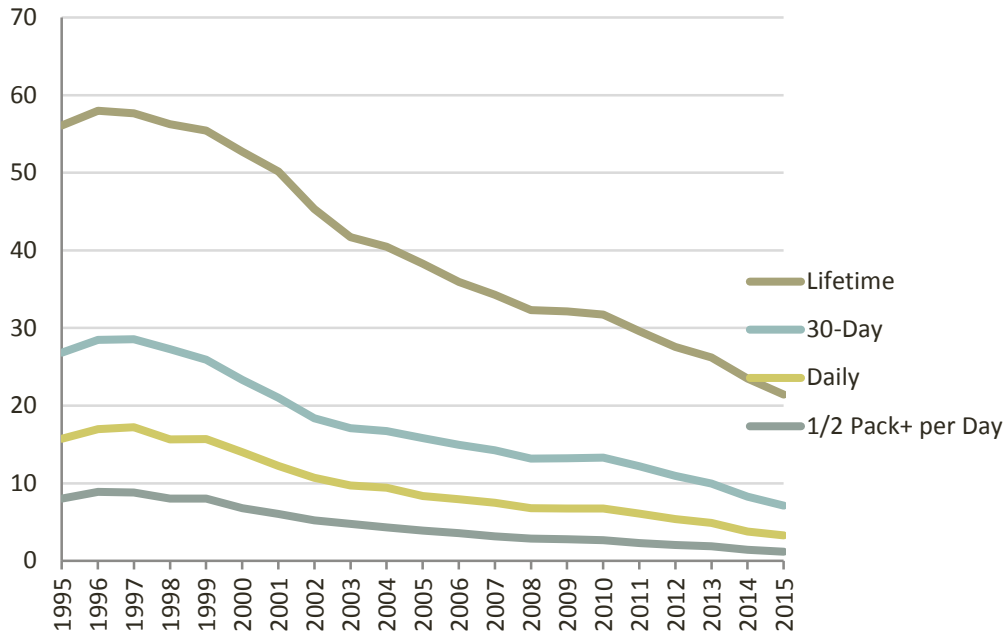
<b>2013 E-cig composition</b>		<b>Percent who use E-Cigs</b>		<b>Age of E-Cig Users</b>	
			2013		2013
Never smokers	12.6%	Never-smokers	1.4%	18–24	14.2%
Distant former smokers	5.8%	Former smokers	5.4%	25–44	8.6%
Current Smokers	67.4%	Nondaily smokers	34.1%	45–64	5.5%
Recent former smokers	14.1%	Daily smokers	30.3%	65+	1.2%

source: (McMillen, Gottlieb, Whitmore Shaefer, Winickoff, & Klein, 2014)

- According to CDC (2014)
  - 81.5% of consumption of vaping products is from individuals that are current or recent former smokers
  - 12.6% of vaping consumers reported having smoked < 100 combustible cigarettes in lifetime
  - Distant former smokers represent 5.8%
  - Percentage of individuals that have never smoked combustible cigarette but have tried vaping product hovers around 1.2%

# Usage Statistics cont.

**Avg. Teen Cigarette Consumption %  
by Year and Consumption Pattern**



Source: U. Mich. - Monitoring

**Teen Use (Past 30 Days) of Combustible Cigs  
and Vaping Products - 2015**

Grade	Combustible	Vaping
8th	4%	10%
10th	6%	14%
12th	11%	16%

Source: U Mich. - Monitoring the Future

- 60% of teens reported vaping flavored liquids without nicotine



# Government Oversight

- Potential CDC rules
  - Currently only regulates vaping products marketed for therapeutic purposes
  - Require federal approval for most flavored liquid nicotine juices and e-cig devices (retroactive to 2007)
- State / Local
  - Oversight legislation
    - E.G. – HB 2546 (2015), OR Indoor Clean Air Act inclusion of Inhalant delivery system
  - Tax
    - Elasticity of vaping products

# Vapor Taxation – Other States

- Minnesota
  - Taxed as part of Minn. Tobacco tax – 95% of wholesale cost of any product containing or derived from tobacco
- Washington D.C. (2015)
  - Taxed as part of general OTP @ 67% rate, imposed on first person who possesses or sells vapor products within district
- Louisiana (2015)
  - \$.05 per mL
- North Carolina (2015)
  - \$.05 per mL (must contain nicotine)
  - Liability lands on wholesaler or retailer dealer who first acquires the consumable vapor product
- Kansas (begins 7/1/2016)
  - \$.20 per mL

# Potential Tax Policies

- Retail / Wholesale Sales Tax
  - What tax will apply to (liquid, component parts, apply to non-nicotine)
- Tax on liquid on per mL basis
- Nicotine content, comparisons with combustible cigarettes
  - Nicotine delivery in vaping products depends on: device type, liquid nicotine concentration, experience of vapor consumer, style of vaping, device battery power
  - Range from \$.10 - \$.65 per mL
- Limited data availability
- Tax compliance