

INCREASING  
CIGARETTE  
EXCISE TAX IS  
**BAD POLICY**  
FOR OREGON

# THE TOP REASONS WHY A HIGHER CIGARETTE TAX IS BAD FOR OREGON

## ONE

### INCREASING THE STATE CIGARETTE TAX WILL HAVE MINIMAL EFFECT ON THE ADULT SMOKING RATE.

- There is little evidence that increasing the state excise tax (SET) on cigarettes actually reduces the adult smoking rate.<sup>1</sup> In fact, after Oregon's 13¢-per-pack SET hike in 2014, the rate of decline in adult smoking slowed down.
- Instead of reducing smoking, many adult smokers will avoid paying more in taxes by purchasing cigarettes in cheaper border states or through the illicit market. Yet, Oregon will retain the smoking-related costs while forfeiting the tax-related revenue.

## TWO

### INCREASING THE STATE CIGARETTE TAX WILL RESULT IN LOST REVENUE TO BORDER STATES.

- In 2015 alone, Oregon collected 31% less tax revenue than projected.<sup>2</sup>
- Also, increases in illicit market activities and revenue declines in corporate income tax revenues (due to reduced cigarette sales and subsequent retailer profits) further dilute tax revenue collected.
- Since 2009, 70% of all U.S. state cigarette excise tax increases have actually failed to reach revenue projections.<sup>3</sup>

## THREE

### INCREASING THE STATE CIGARETTE TAX UNFAIRLY TARGETS HARD WORKING OREGONIANS.

- Increases to the state cigarette tax would unfairly target hardworking Oregonians who earn less than \$25,000 annually.
- Those that make less than \$25,000 annually across the state would end up funding 50% of all additional cigarette tax revenue.<sup>4</sup>
- In fact, those making less than \$25,000 per year pay nearly 5x more of their discretionary income on cigarette taxes than those earning more than \$75,000, making the cigarette SET highly regressive.<sup>5</sup>

## FOUR

### INCREASING THE STATE CIGARETTE TAX HARMS THE STATE ECONOMY.

- Any excise tax hikes would cause further economic decline since adult smokers already pay \$522.8 million per year in taxes and fees on cigarettes.
- Reducing discretionary income and fueling unemployment rates will further hamper investment and growth in Oregon's economy at a time when hardworking Oregonians can least afford it.

<sup>1</sup> Callison, K. and Kaestner, R. "Do Higher Tobacco Taxes Reduce Adult Smoking? New Evidence of the effect of Recent Cigarette Tax Increases on Adult Smoking" National Bureau of Economic Research, 2014.

<sup>2</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016).

<sup>3</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016 and publicly available records).

<sup>4</sup> Centers for Disease Control 2014 Behavioral Risk Factor Surveillance Survey (Adults 18+).

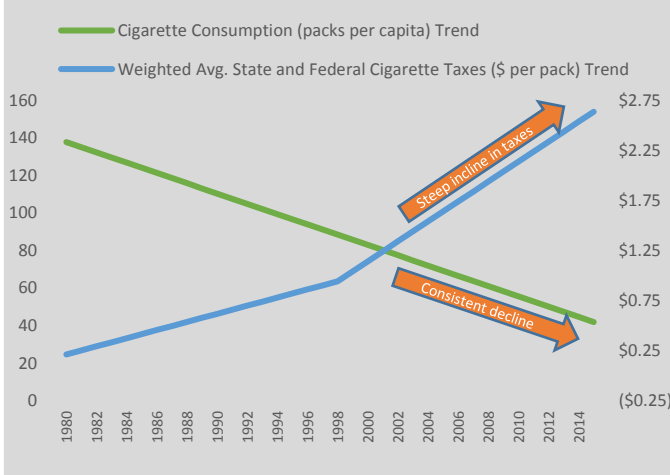
<sup>5</sup> Based on data from Centers for Disease Control 2014 Behavioral Risk Factor Surveillance Survey (Adults 18+).

# RAISING CIGARETTE TAXES HAS NOT REDUCED CONSUMPTION AS SOME CLAIM

Some advocate that higher cigarette taxes will result in less smoking and lower state health care costs. However, this is not the case. Oregon's 2014 13¢ cigarette tax increase actually slowed the rate of smoking decline, from 2.3% to 2.2%.

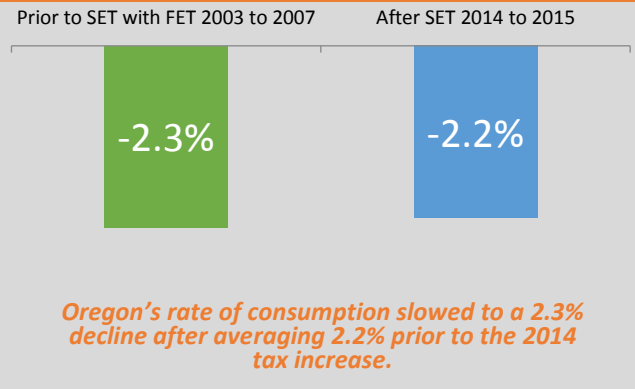
This is true nationally as well. Until 1994, there was a strong association between increased taxes and reduced consumption. However, **after 1994, the reduction in consumption remained consistent despite the spike in taxes from 1994 to 2015<sup>1</sup>** where there were more than 160 state tax increases and the weighted state and federal excise tax rate more than quadrupled.<sup>2</sup>

**FIGURE 2**  
NATIONAL CIGARETTE CONSUMPTION AND CIGARETTE EXCISE TAXES<sup>3</sup>



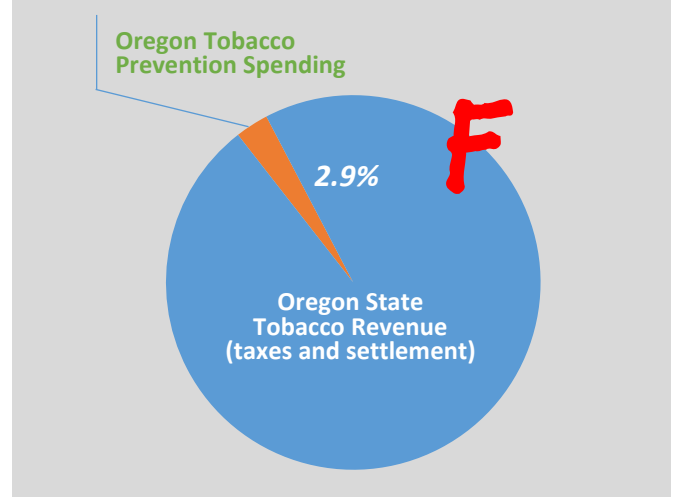
Public health and tobacco control groups stress that effective efforts to reduce smoking should include prevention and cessation programs. Yet Oregon spends a meager 2.9% of its tobacco revenue on prevention and cessation programs. State spending on such programs is 29.4% of CDC-recommended levels, earning the state an “F” from the American Lung Association.<sup>5</sup>

**FIGURE 1**  
CHANGE IN OREGON PER CAPITA CIGARETTE CONSUMPTION<sup>3</sup>



*“...adult smoking is largely unaffected by taxes.”<sup>1</sup>*

**FIGURE 3**  
OREGON FY 2015 STATE TOBACCO REVENUE VS. SPENDING ON TOBACCO PREVENTION<sup>4, 5</sup>



<sup>1</sup> Callison, K and Kaestner, R. “Do Higher Tobacco Taxes Reduce Adult Smoking? New Evidence of the Effect of Recent Cigarette Tax Increases on Adult Smoking.”, National Bureau of Economic Research, Working Paper 18326 (August 2012)

<sup>2</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016).

<sup>3</sup> Ibid.

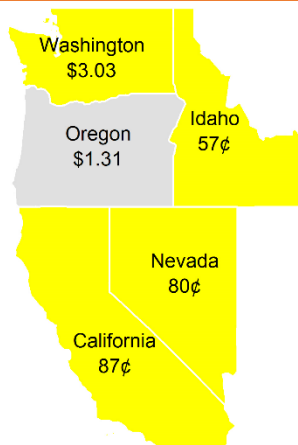
<sup>4</sup> “Broken Promises to Our Children: A state by state look at the 1998 state tobacco settlement 17 years later.” Campaign for Tobacco-Free Kids, December 8, 2015.

<sup>5</sup> “State of Tobacco Control 2016” American Lung Association, 2016

# SMOKERS AVOID HIGHER TAXES BY PURCHASING CIGARETTES ILLICITLY OR IN BORDER STATES

Lessons learned from the last cigarette tax increase demonstrate that adult smokers will evade the increased cigarette tax by seeking alternative, cheaper sources. Yet Oregon will retain the smoking-related costs while forfeiting the tax-related revenue.

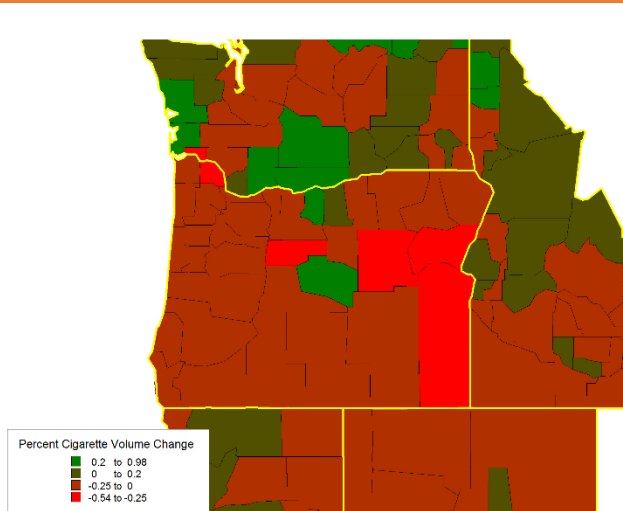
**FIGURE 1**  
STATE TAX RATES AFTER OREGON'S 13¢-PER-PACK 2014 STATE EXCISE TAX INCREASE



Note: California SET will increase to \$2.87 per pack as of April 1<sup>st</sup> 2017

*When Oregon raised its cigarette tax 13¢ per pack in 2014, the second highest in the region, Oregon smokers sought out cheaper cigarettes in neighboring states.*

**FIGURE 3**  
CIGARETTE PACK SALES 6 MONTHS BEFORE AND AFTER OREGON'S 2014 STATE EXCISE TAX INCREASE<sup>2</sup>



*Bordering states gained cigarette sales while Oregon lost sales and business activity – all while retaining the healthcare costs associated with smokers.*

**FIGURE 4**  
OREGON COUNTIES MOST AFFECTED BY OREGON 2014 STATE EXCISE TAX INCREASE<sup>3</sup>

RANK	COUNTY	6-MONTH IMPACT (Cartons)	% CHANGE
1	MULTNOMAH	-205,745	-17%
2	LANE	-52,757	-12%
3	COLUMBIA	-35,992	-27%
4	JACKSON	-35,146	-11%
5	UMATILLA	-30,716	-18%
6	WASHINGTON	-28,402	-6%
7	JOSEPHINE	-25,021	-17%
8	DOUGLAS	-23,503	-13%
9	MARION	-22,975	-6%
10	JEFFERSON	-22,663	-54%
11	LINCOLN	-15,255	-17%
12	YAMHILL	-14,201	-11%
13	KLAMATH	-13,219	-12%
14	WASCO	-13,094	-23%
15	LINN	-13,040	-10%
16	COOS	-12,027	-10%
17	DESCHUTES	-11,552	-7%
18	CLACKAMAS	-10,210	-3%
19	CLATSOP	-9,516	-11%
20	BAKER	-8,070	-26%
21	CURRY	-7,210	-16%
22	MALHEUR	-6,741	-31%
23	GRANT	-5,026	-40%
24	HOOD RIVER	-4,219	-13%
25	POLK	-3,890	-6%
26	UNION	-2,665	-8%
27	TILLAMOOK	-2,322	-6%
28	HARNEY	-2,134	-20%
29	WALLOWA	-1,035	-19%
30	MORROW	-940	-12%
31	BENTON	-919	-2%
32	LAKE	-836	-8%
33	WHEELER	-42	-4%
34	GILLIAM	56	3%
35	SHERMAN	1,133	23%
36	CROOK	5,739	27%

<sup>1</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016)

<sup>2</sup> Internal R.J. Reynolds Tobacco Company shipments data

<sup>3</sup> Ibid.

# HIGHER OREGON TAXES SHIFT SALES TO BORDER STATES AND PROMOTE ILLEGAL ACTIVITY

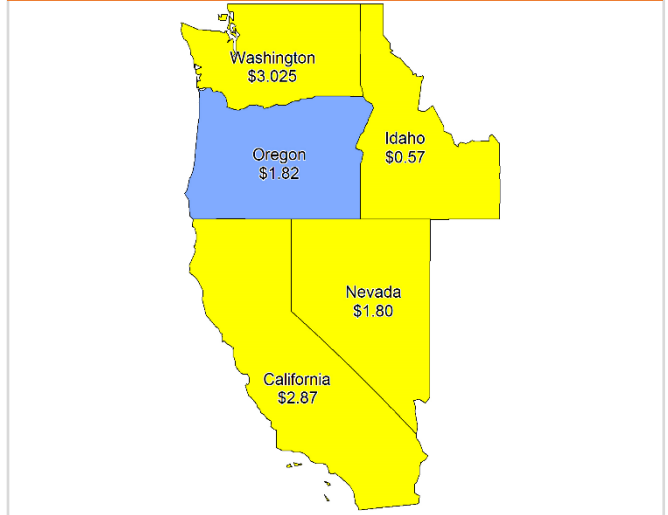
Revenue projections from cigarette tax increases often fail to account for cross-border and illicit sales, causing Oregon to forfeit tax revenue to other states and causing actual collections to miss projections.

**FIGURE 1**  
IMPORTER OF CIGARETTE VOLUME<sup>1</sup>

State	% Volume	Rank
Washington	43.74%	3
Oregon	10.41%	22
California	28.31%	7
Idaho	-22.47%	46
Nevada	-16.35%	41

*According to the Mackinac Center for Public Policy and the Tax Foundation's latest research, 10.4% of the cigarettes consumed in Oregon are smuggled, likely from neighboring Idaho or Nevada. A 50¢-per-pack cigarette tax increase will only exacerbate Oregon's illicit trade problem.*

**FIGURE 2**  
OREGON AND BORDERING STATE TAX RATES IF OREGON INCREASE CIGARETTE TAXES BY 50¢/PACK






Higher cigarette taxes invite illegal activity. If Oregon raised its tax by 50¢ to \$1.81 per pack, a smuggler could make approximately \$600,000 by transporting one tractor-trailer load of cigarettes from Idaho to Oregon. (Figure 3).

**FIGURE 3**  
IDAHO TO OREGON ILICIT PROFIT POTENTIAL IF OREGON INCREASED CIGARETTE TAX BY 50¢/PACK

Excise Tax Rates Per Pack	
Oregon	Idaho
\$1.82	\$0.57
<b>Δ \$1.25</b>	

## Idaho to Oregon Profit Potential

	10 cases @ \$7.5K
	50 cases @ \$37.5K
	800 cases @ \$600K

<sup>1</sup> LaFaive, M. D., Nesbit, T., PhD, & Drenkard, S. Cigarette Taxes and Smuggling: A 2016 Update. Retrieved December 19, 2016.

<sup>2</sup> Based on data provided by Bill Orzechowski & Rob Walker and publicly available records.

<sup>3</sup> One case = 600 packs of cigarettes

# HIGHER CIGARETTE TAXES DRAIN STATE REVENUE FROM OTHER SOURCES AND OFTEN LEAD TO MISSED PROJECTIONS

Cigarettes are retailers' top in-store product category, driving other non-tobacco sales. Oregon retailers lose as smokers avoid high in-state taxes, resulting in lost sales tax and corporate income tax revenue for Oregon.

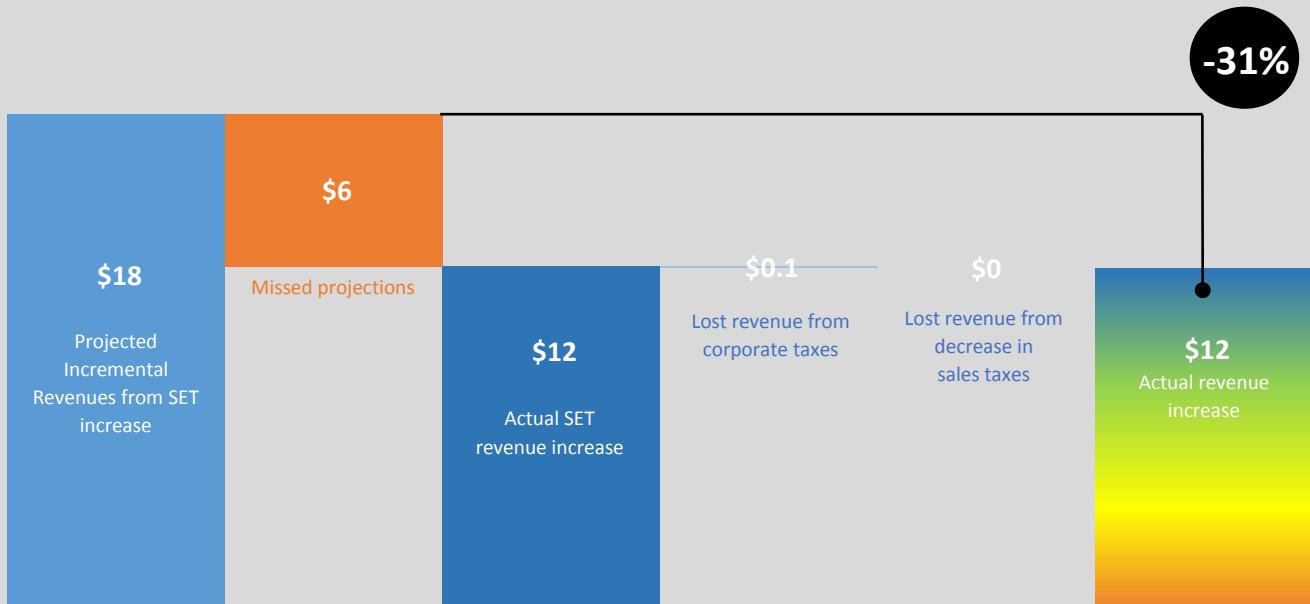
*Retailers lost \$6.6M in sales after Oregon raised its cigarette tax in 2014.<sup>1</sup>*

Tobacco and other items purchased with tobacco make up 48% of in-store sales at convenience stores.<sup>2</sup> When smokers go across the border to buy cigarettes, they also purchase gas, soda, snacks, etc. This means lost customers, lost sales and lost profits to Oregon businesses.

**FIGURE 1**  
NET REVENUE FROM OREGON'S 2014 SET INCREASE

Dollars in millions

*After the 2014 tax increase, Oregon only realized 69% of projected revenue due to cross-border sales, illicit trade and lost sales taxes and corporate taxes.*



*7 out of 10 state cigarette excise taxes have missed revenue projections since 2009.<sup>3</sup>*

<sup>1</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016) and National Association of Convenience Stores.

<sup>2</sup> NACS State of the Industry Report – 2015, National Association of Convenience Stores, Table 9A.

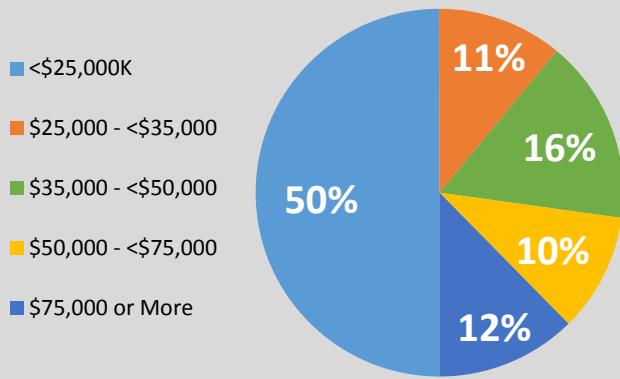
<sup>3</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016) and National Association of Convenience Stores.

# HIGHER CIGARETTE TAXES UNFAIRLY BURDEN OREGON'S LOW EARNERS

Tobacco taxes are highly regressive. Because those at lower income levels have a higher incidence of smoking, an increase to Oregon's state excise tax (SET) on cigarettes would unfairly target and massively burden hardworking Oregonians who least can afford it – those making less than \$25,000 per year. Why should hourly employees and seasonal workers across the state shoulder most of the burden when the whole state benefits from the revenue?

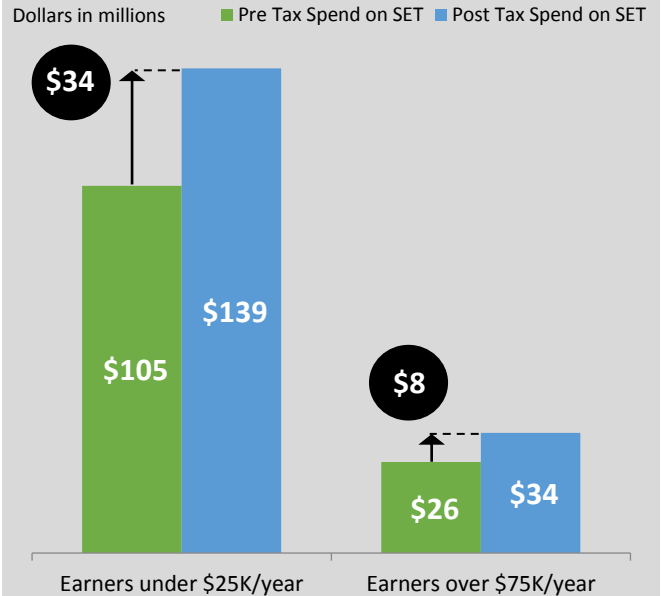
Those making less than \$25,000/year pay 4x more in cigarette taxes than those making more than \$75,000/year.

**FIGURE 1**  
PORTION OF CIGARETTE TAX PAID BY INCOME LEVEL<sup>1</sup>



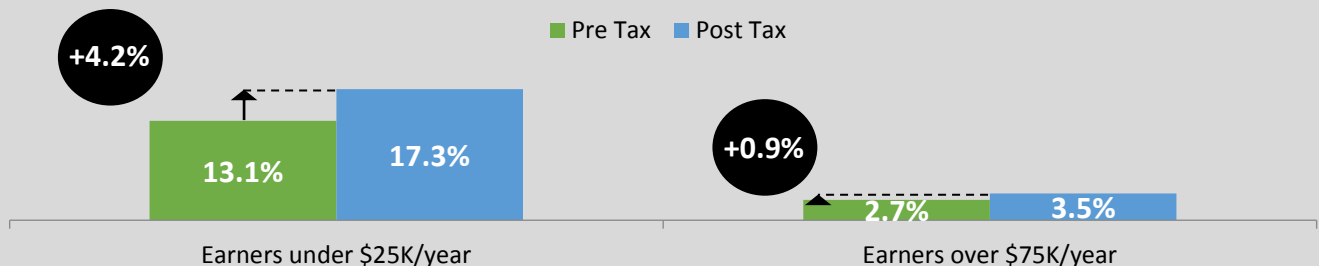
*50% of additional tax revenue would be funded by those making less than \$25,000/year.*

**FIGURE 2**  
CIGARETTE TAXES PAID BY OREGON SMOKERS<sup>2</sup>



*Oregon asked those earning less than \$25K/year to pay \$34 million more in taxes. Yet those earning more than \$75K/year were asked to only pay \$8 million more.*

**FIGURE 3**  
ESTIMATED PERCENTAGE OF TOTAL DISCRETIONARY INCOME SPENT ON TOBACCO TAXES FOR OREGON SMOKERS<sup>3, 4</sup>



*Oregon workers earning less than \$25K/year spent ~17.3% of their discretionary income on tobacco SETs, nearly 5x more than those who earn more than \$75K/year.*

<sup>1</sup> Centers for Disease Control 2014 Behavioral Risk Factor Surveillance Survey (Adults 18+).

<sup>2</sup> Calculation based on Centers for Disease Control 2014 Behavioral Risk Factor Surveillance Survey (Adults 18+).

<sup>3</sup> Ibid.

<sup>4</sup> Assumes 15% disposable income based on Bureau of Labor Statistics; discretionary income refers to income remaining after costs for housing, transportation, food, utilities and clothes.

# SMOKERS ALREADY PAY THEIR SHARE IN TAXES: \$522.8 MILLION<sup>1</sup> TO OREGON

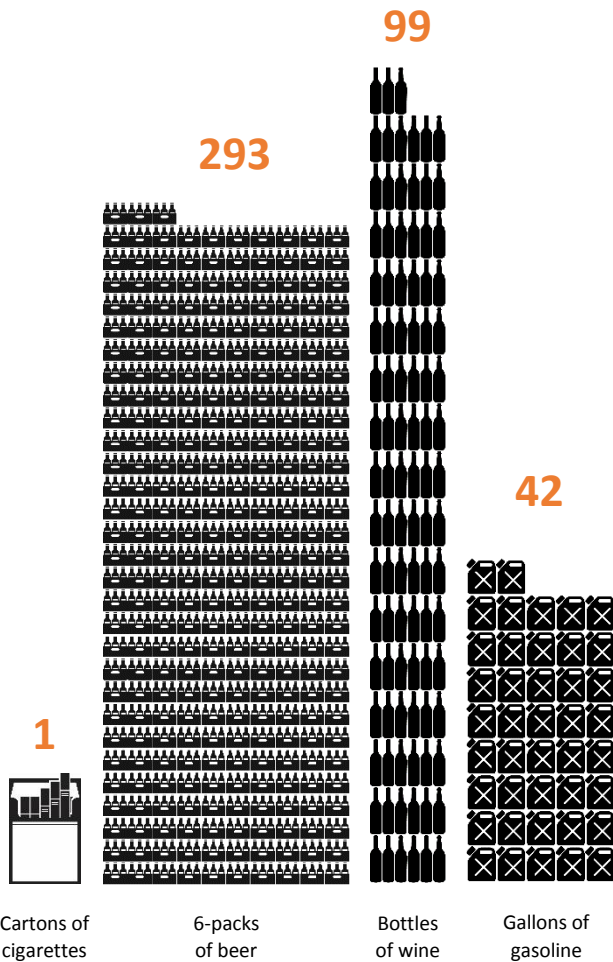
Higher cigarette taxes reduce the money adult smokers in Oregon have to spend on other items. A 50¢ state excise tax (SET) increase would force an average adult smoker to pay an additional \$114/year, representing 2% of discretionary income. These smokers will have less money in their wallets for recreation, entertainment and other expenses which will have an impact on the broader state economy.

A pack-a-day smoker in Oregon currently pays \$1,185 in taxes and fees related to cigarette purchases each year. This amount represents 49% of the cost of cigarettes and would increase to 53% if the SET was increased by 50¢ per pack.<sup>2</sup>

Furthermore, ~28% of a smoker's discretionary income would now be funneled to support government rather than invest in purchases that fuel economic growth. This results in \$523 million of lost purchasing power to the state.

**FIGURE 1**  
RELATIVE OREGON EXCISE TAX RATES<sup>3</sup>

*The state tax on one carton of cigarettes equals...*



**FIGURE 2**  
GOVERNMENT TAKE OF CIGARETTE SALES AFTER 50¢/PACK INCREASE<sup>4</sup>

*In Oregon, government would increase its profit on a pack of cigarettes from 49% to 53%.*



<sup>1</sup> State excise and sales tax and settlement payments for FY 2014, Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016).

<sup>2</sup> Based on data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016) and internal data.

<sup>3</sup> The Oregon state excise tax on beer, wine, and gasoline is \$0.08, \$0.67, and \$0.31 per gallon, respectively.<sup>4</sup> Based on FY 2014 data provided by Bill Orzechowski & Rob Walker, The Tax Burden on Tobacco, vol. 50 (February 2016) and internal data.



