

Oregon's Revenue Challenge with Tobacco

A review on the impact of HB 2024, 2662, 2037 and 2056



Oregon's Revenue Goal

- The proposed Bills aim at increasing the current tobacco tax revenue stream by an estimated \$5 Million per year
- 4 Separate House Bills to propose the implantation of additional tax revenues
 - HB 2037 - Increase tobacco tax rate from 65% to 90% at a max of 62.5c per cigar
 - HB 2056 - Increase tobacco tax rate from 65% to 90% at a max of 50c per cigar
 - HB 2024 - Raises smoking age from 18 to 21 and removes 50c cap but keeps the 65% tax rate
 - HB 2662 - Removes cigar cap but keeps 65% tax rate

Current Tobacco Tax Revenue Trend

- Graphs show that over the years the tax has increased on cigars (both State and Fed (SCHIP)) forcing folks to purchase more mail order outside of Oregon (extreme price sensitivity). Raising taxes further will result in further negative returns

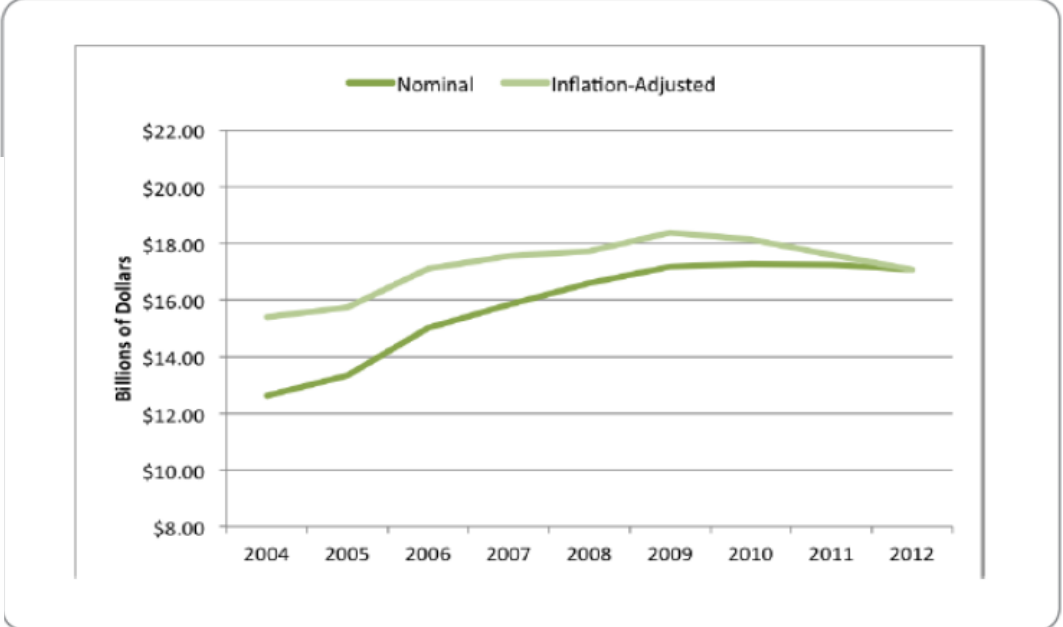
Federal Tobacco Tax Revenues Are Declining After 2009 Tax Hike

Federal Tobacco Excise Tax Revenue, 2000-2025, Billions of Dollars



Source: Office of Management and Budget, Table 2.4; Congressional Budget Office, Updated Budget Projections, March 2015
 Note: Data for 2000-2014 (blue) from OMB historical tables. Projections for 2015-2025 (pink) from CBO baseline. Taxes were increased mid-year in 2009.

Total State Tobacco Tax Revenues, 2004-2012



Source: Author's calculations of data from the U.S. Census Bureau, Annual Survey of State Government Tax Collectors

An Analysis of Current Revenue

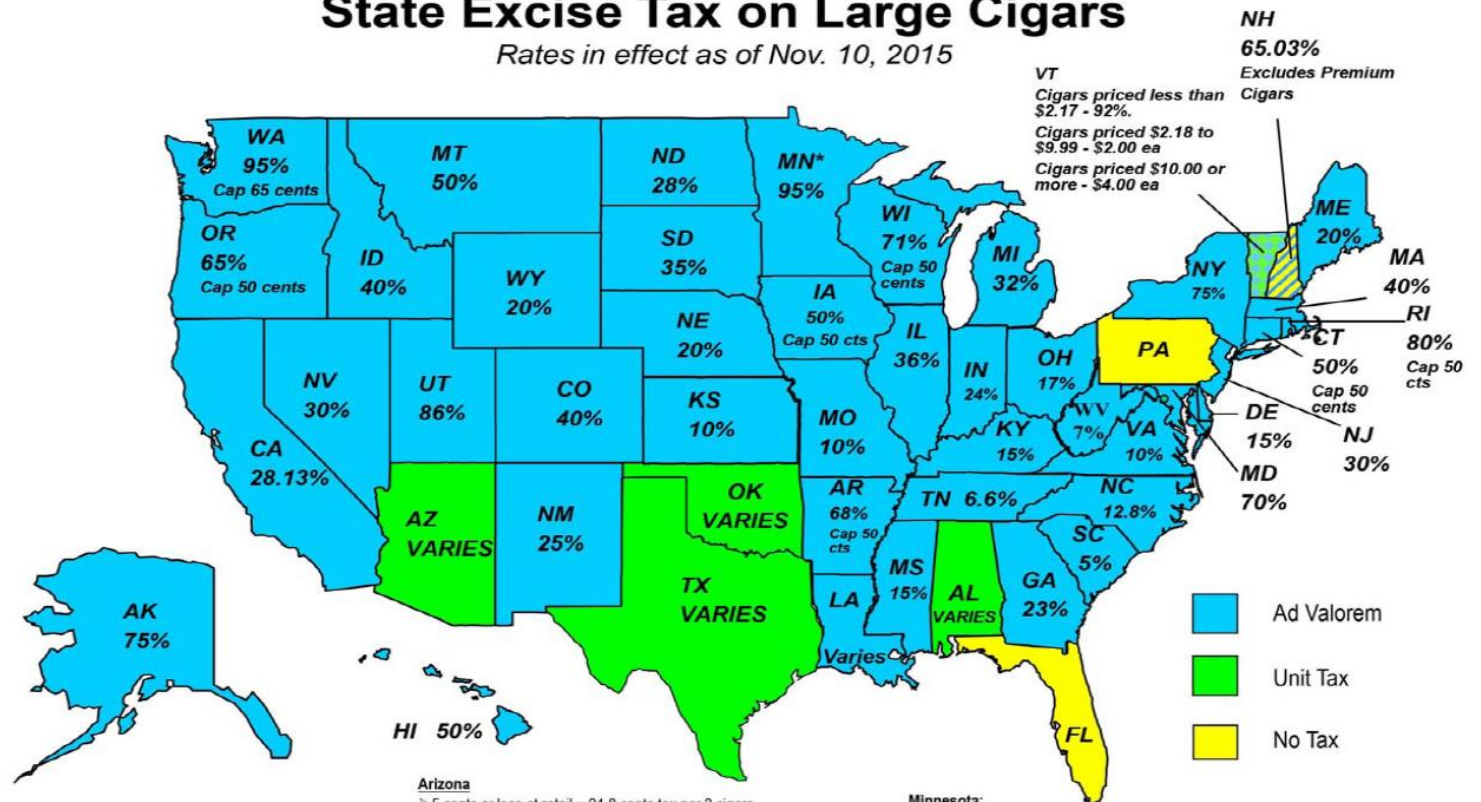
- Currently, Oregon loses tobacco revenue to on-line sales due to lower taxes in those States.
- PA, FL = 0%
- VA = 10%
- WV 7%

<http://www.natocentral.org/tobacco-tax-maps>

Picture shows taxes of nearby states where Oregon consumers can drive to purchase lower cost cigars (think WA liquor tax in reverse to Oregon liquor boom)

State Excise Tax on Large Cigars

Rates in effect as of Nov. 10, 2015



Alabama
 > 3-1/3 cents each or less \$3.00 per M.
 > More than 3-1/3 cts./not more than 5 cts. ea \$6.00 per M.
 > More than 5 cts./not more than 8 cts. ea \$9.00 per M.
 > More than 8 cts./not more than 10 cts. ea \$15.00 per M.
 > More than 10 cts./not more than 20 cts. ea \$30.00 per M.
 > More than 20 cents each \$40.50 per M.

Arizona
 > 5 cents or less at retail = 21.8 cents tax per 3 cigars
 > More than 5 cents retail = 21.8 cents tax each

Louisiana
 > Priced at \$120 per thousand or less - 8% of the invoice price
 > Priced at more than \$120 per thousand - 20% of the invoice price

Oklahoma
 > Not exceeding 4 cents per piece: 10 cents tax per piece
 > Exceeding 4 cents per piece: 12 cents tax per piece

Minnesota:
 As of 7/1/2013, premium cigars have a cap of \$3.50 per cigar

Texas
 On cigars costing:
 > 3.3 cents each or less, \$7.50 per M
 > 3.3 cents each or less (containing no substantial amount of non-tobacco ingredients), \$11.00 per M
 > More than 3.3 cents (containing no substantial amount of non-tobacco ingredients), \$15.00 per M

Impact of Removal of Cigar Tax Cap

- Analysis of total population along all Oregon border towns less than 30 miles to adjacent States reveals additional potential of further revenue degeneration by as much as 32%*
- On-line purchases would also significantly increase
 - USPS doesn't report tobacco sales to States
- Analysis of pipe tobacco tax returns even lower results for tax revenue because this type of tobacco is much higher in Oregon than the majority of States
 - A popular 1 lbs bag of pipe tobacco from JR Cigars (on-line retailer) is \$40.55
 - Same bag of 1 lbs bag sold in Oregon at current 65% tax rate is \$68.34
 - Increasing the tax only lowers the level of Oregon store purchases- hence reducing revenue

*Handout exhibit 1



Impact of Removal of Cigar Tax Cap (cont)

- The bills promote a negative image of the Oregon Legislature for small businesses
 - The increased tax will drive away many customers of the 140+ retailers that sell premium cigars.
 - NOTE: the tax will not reduce the number of cigar and pipe smokers, it will only drive them to seek lower prices outside of Oregon
- The lowering of tobacco tax revenue by increasing the current tax rate hurts benefactors of this tax program
 - Transportation for senior citizens
 - Health care for the poor
 - Anti-tobacco education programs

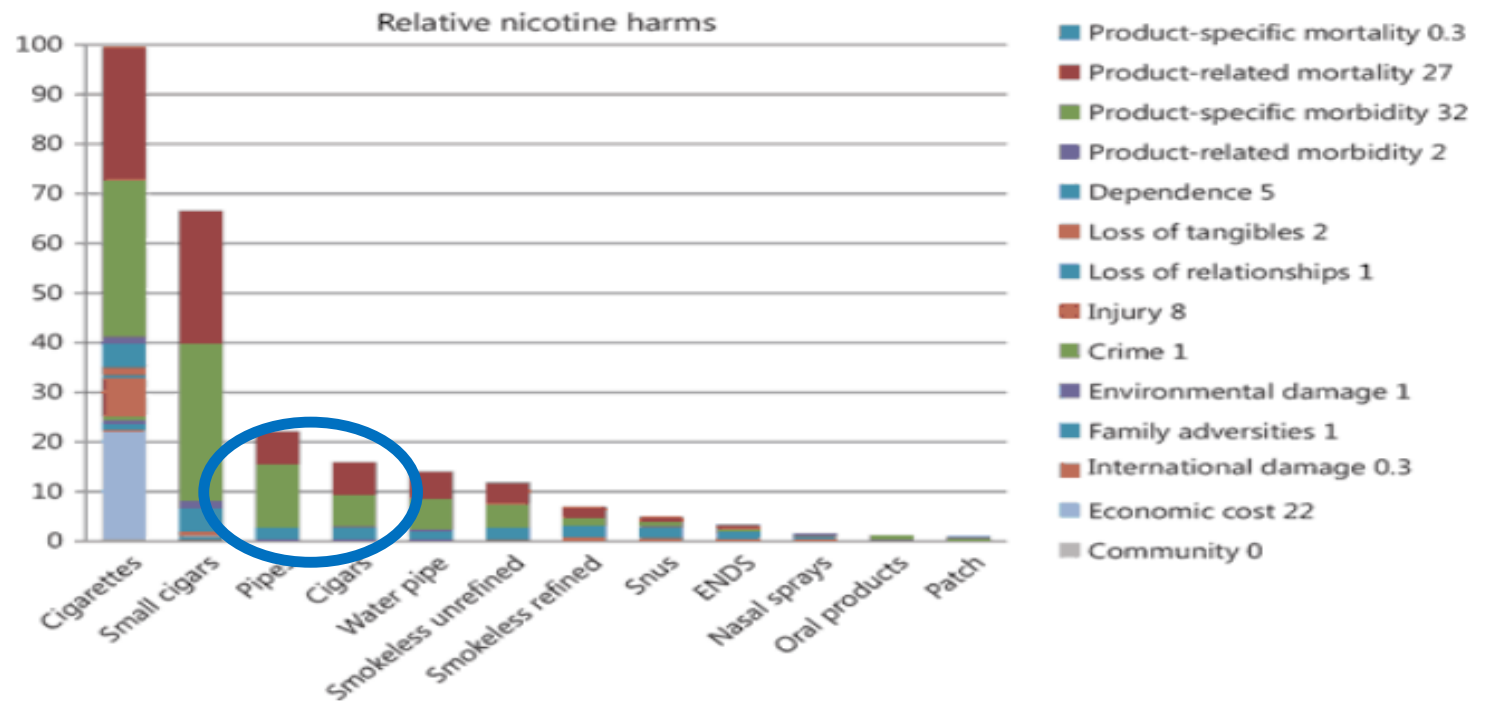


Health Impact? Let's Be Clear!

- Premium Cigars and Pipe Tobacco are NOT cigarettes or cigarillos.
- Health impacts are drastically lower (not eliminated) for Premium Cigars and Pipe Tobacco

Fig. 2

Overall weighted scores for each of the products. Cigarettes, with an overall harm score of 99.6, are judged to be most harmful, and followed by small cigars at 67. The heights of the coloured portions indicate the part scores on each of the criteria. Product-related mortality, the upper dark red sections, are substantial contributors to those two products, and they also contribute moderately to cigars, pipes, water pipes, and smokeless unrefined. The numbers in the legend show the normalized weights on the criteria. Higher weights mean larger differences that matter between most and least harmful products on each criterion.



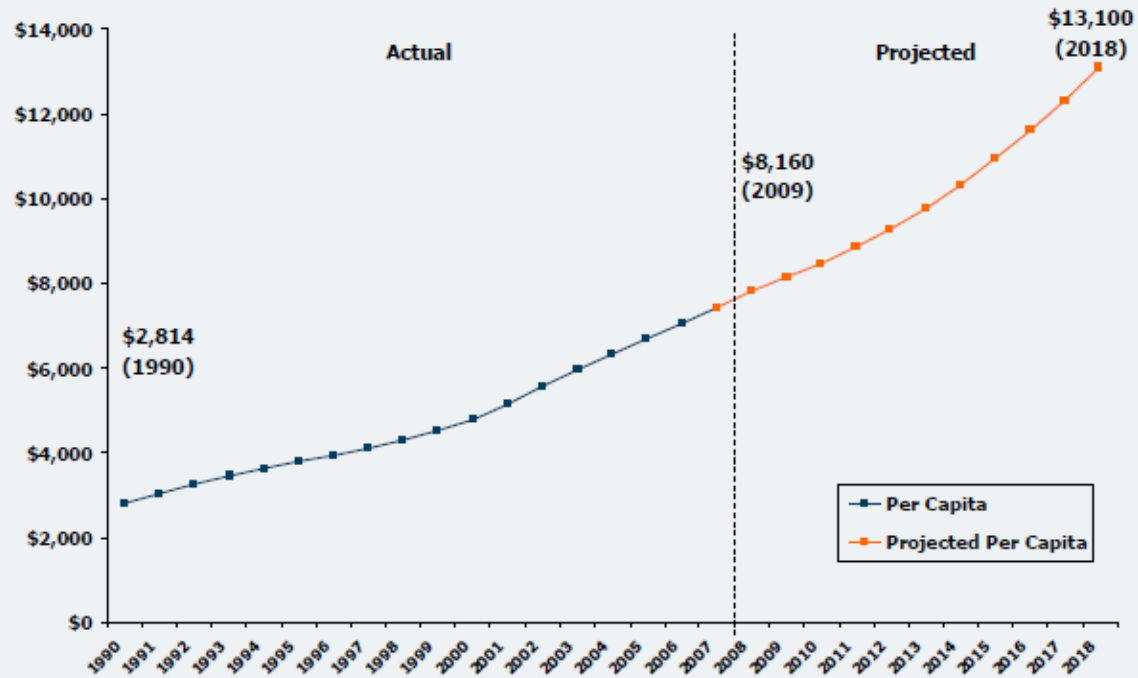
Fairness Continued

- Surgeon General reported in 2014 that, "***[c]ompared with persons who smoke cigarettes, smokers who smoke pipes or cigars exclusively have a lower risk for many smoking-related diseases (internal citation omitted). Smoke from pipes and cigars contains the same toxic substances as cigarette smoke, but those who use a pipe or cigar usually smoke at a lower frequency; observation indicates that they tend not to inhale the smoke, thus reducing their exposure to its toxic substances (internal citations omitted). Evidence indicates that former cigarette smokers are more likely to inhale pipe or cigar smoke than are primary pipe and cigar smokers who have never smoked cigarettes (internal citations omitted)***" (Ref. 9 at 428-429 of the FDA Family Smoking Prevention and Tobacco Control Act)
 - For the full reference citation go to <https://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>

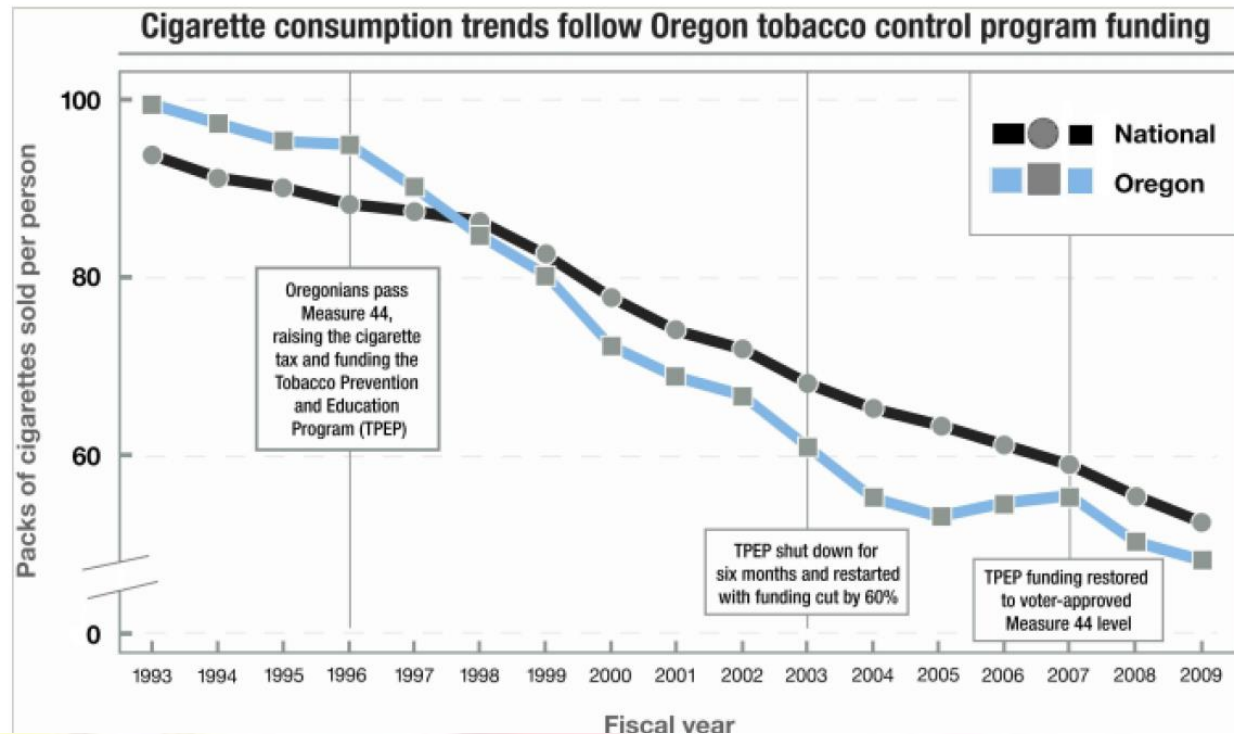
Health Care Costs and Tobacco Use

- Historical arguments have been that tobacco use drives up overall health care costs
 - Actual trends show this assumption is false

Exhibit 1: National Health Expenditures per Capita, 1990-2018



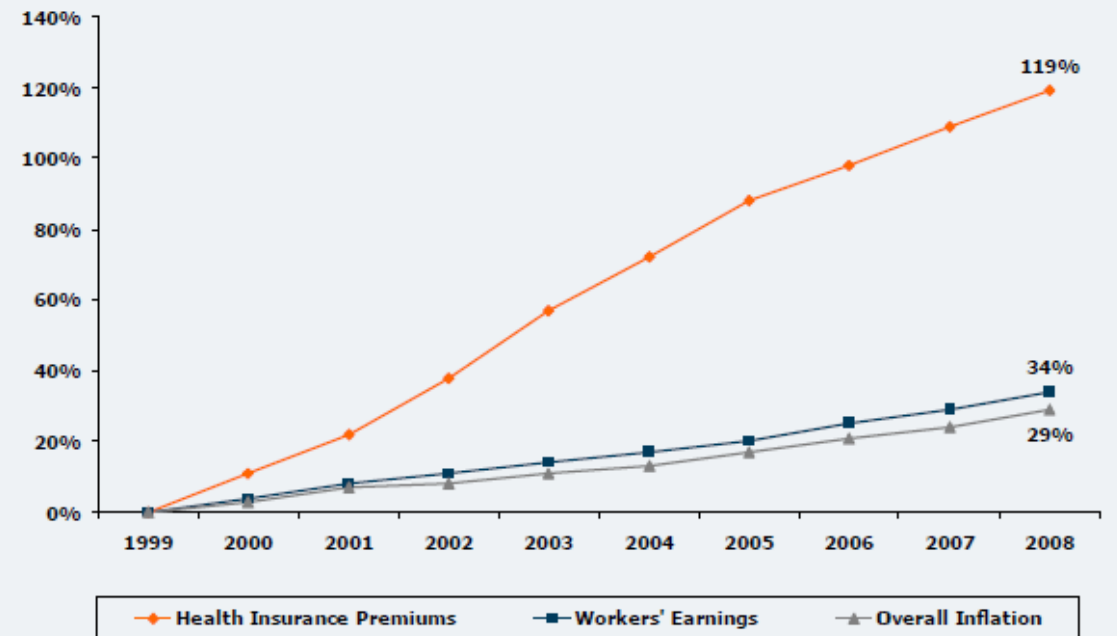
Tobacco Use in Oregon



Health Care Costs and Consumer Sensitivity

- The rise in health care costs now impact Oregon residents purchasing power
 - further driving the need to find lower cost premium cigars and pipe tobacco from outside the State

Exhibit 4: Cumulative Changes in Health Insurance Premiums, Inflation, and Workers' Earnings, 1999-2008



A Different Approach

- Oregon was a leader in tax caps. We need to continue to lead.
 - Minnesota has a bill to reduce premium cigar tax (The Nash Bill)
 - Massachusetts is adding a tax cap (SD 171)
 - Majority of States already implemented tax cap to increase their revenue streams.
- Lower the cap on premium cigars to 25c per cigar
 - Reverse the trend of reduced Oregon purchases
 - This is NOT a promotion of smoking cigars, it is merely pulling lost revenue back into the State of Oregon.
- Reduce the tax on pipe tobacco
 - 10% makes Oregon competitive with on-line retailers

THANK YOU

