

OREGON TAXED CIGARETTE SALES AND BORDER EFFECTS

House Revenue Committee

March 20, 2019

Jon Hart, Research Section

Oregon Department of Revenue

▶ Price Elasticity

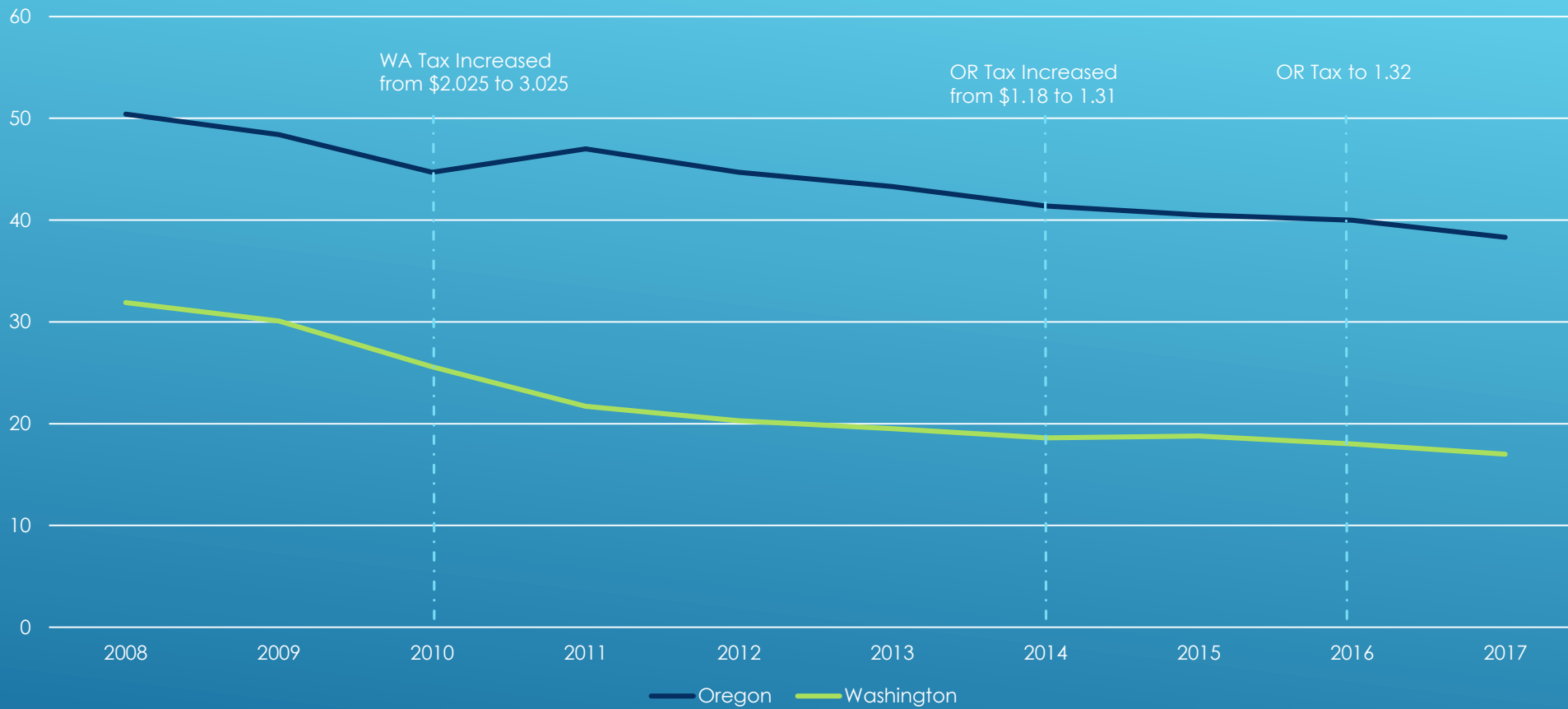
- ▶ There seems to be consensus that the price elasticity of consumption of cigarettes is in the neighborhood of -0.4.
 - ▶ That is, if the price increases by 10% then the consumption is reduced by about 4%
- ▶ The price elasticity of taxed cigarette sales is higher.
 - ▶ The reduction in packs taxed will be more than 4% because smokers will change how/where they purchase cigarettes in addition to their consumption.

CHANGE IN CONSUMPTION AND TAX
WHEN PRICE CHANGES

- ▶ Net Cross-Border Sales
 - ▶ Oregon Benefits Significantly from Sales into Washington
- ▶ Smuggled Cigarettes
 - ▶ Retail compliance with stamping is high
 - ▶ Credit Cards banned use for online sales in 2005
 - ▶ Generally, major carriers (UPS/FedEx/USPS) don't knowingly ship cigarettes to consumers (2005-2010)
 - ▶ See e.g.
 - ▶ Goolsbee, Lovenheim & Slemrod, 2009. "Playing with Fire: Cigarettes, Taxes, and Competition from the Internet"
 - ▶ Michael Lovenheim 2008. "How Far to the Border? The Extent and Impact of Cross-Border Casual Cigarette Smuggling"

DIFFERENCE BETWEEN CONSUMPTION AND TAXED CIGARETTE SALES

Taxed Cigarette Packs Per Capita

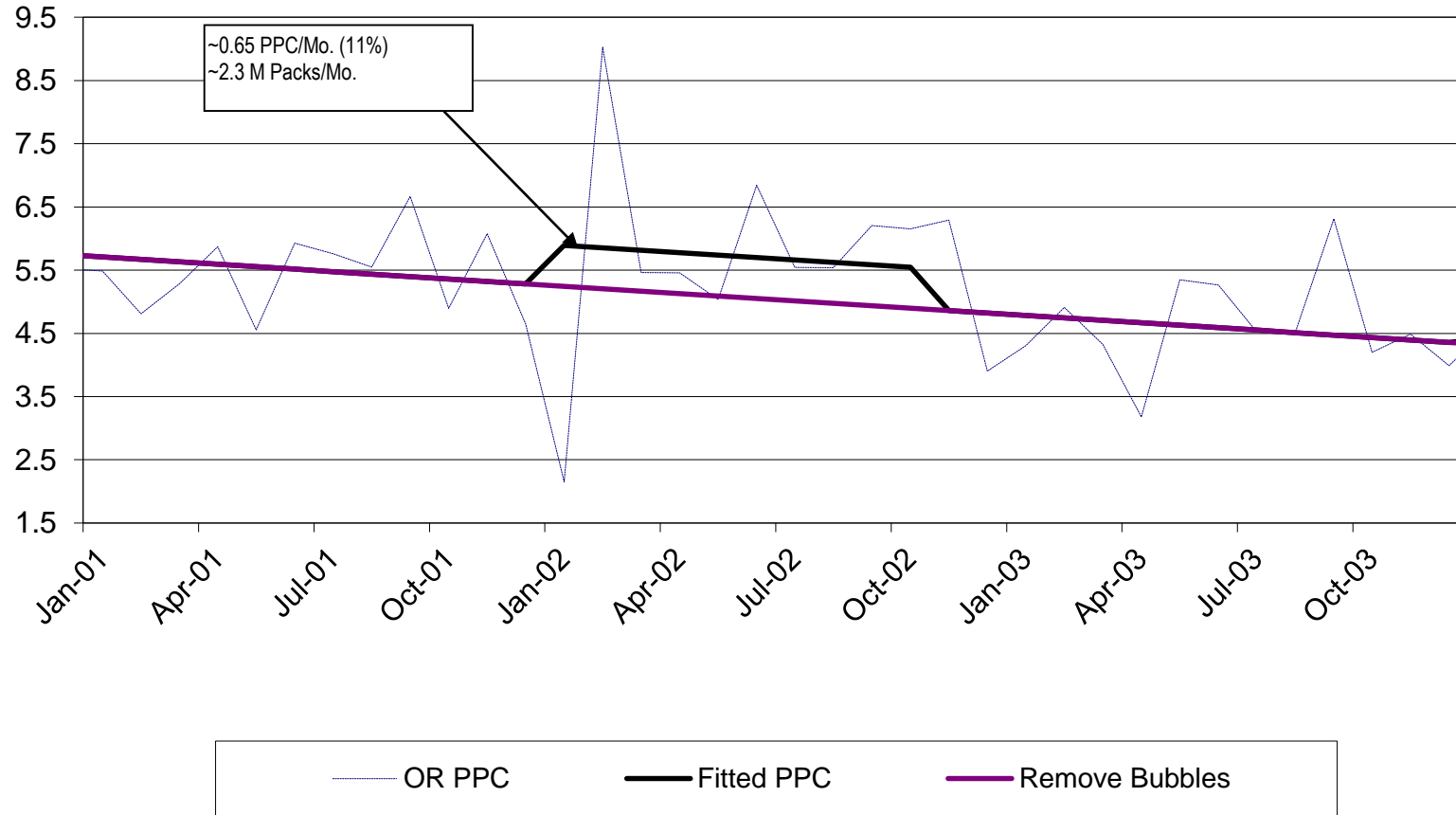


	Oregon	Washington
2008	50.4	31.9
2009	48.4	30.1
2010	44.7	25.6
2011	47	21.7
2012	44.7	20.3
2013	43.3	19.5
2014	41.4	18.6
2015	40.5	18.8
2016	40	18
2017	38.3	17

Source: Annual Sales from Orzechowski and Walker, "The Tax Burden on Tobacco" Accessed from Centers for Disease Control website

Oregon Taxed Packs Per Capita (PPC) Adjusted for WA (1/02) and OR (12/02) 60 Cent per Pack Tax Increase

Taxed Packs of Cigarettes Per Capita



Source: Monthly Sales from Orzechowski and Walker