

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

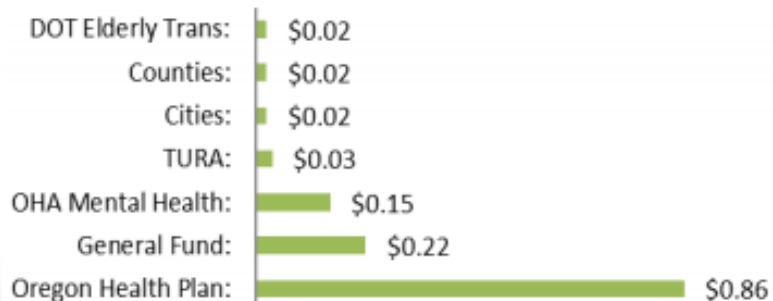
Presented to House Committees on Revenue  
LRO - 3/21/2019

# 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
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%
2015-16	\$1.32	209.9	1.9%	57.5	3.2%	267.5	2.2%
2016-17	\$1.32	209.6	-0.2%	58.9	2.3%	268.5	0.4%
2017-18	\$1.33	203.3	-3.0%	60.7	3.1%	264.0	-1.7%

## Cigarette Tax Distribution

as of 1/1/2019



## Distribution of Other Tobacco Products Tax (1/1/2019)

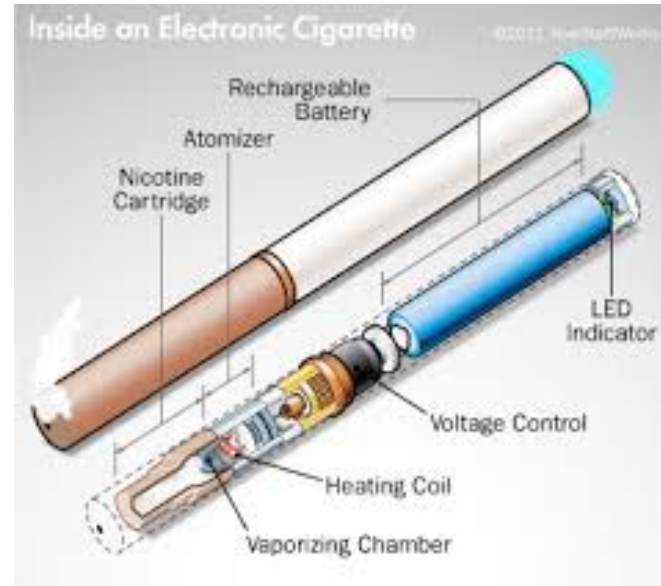
General Fund:	53.84%
OR Health Plan:	41.54%
TURA:	4.62%

## Cigarette &amp; Tobacco Tax Distribution (Millions of \$)

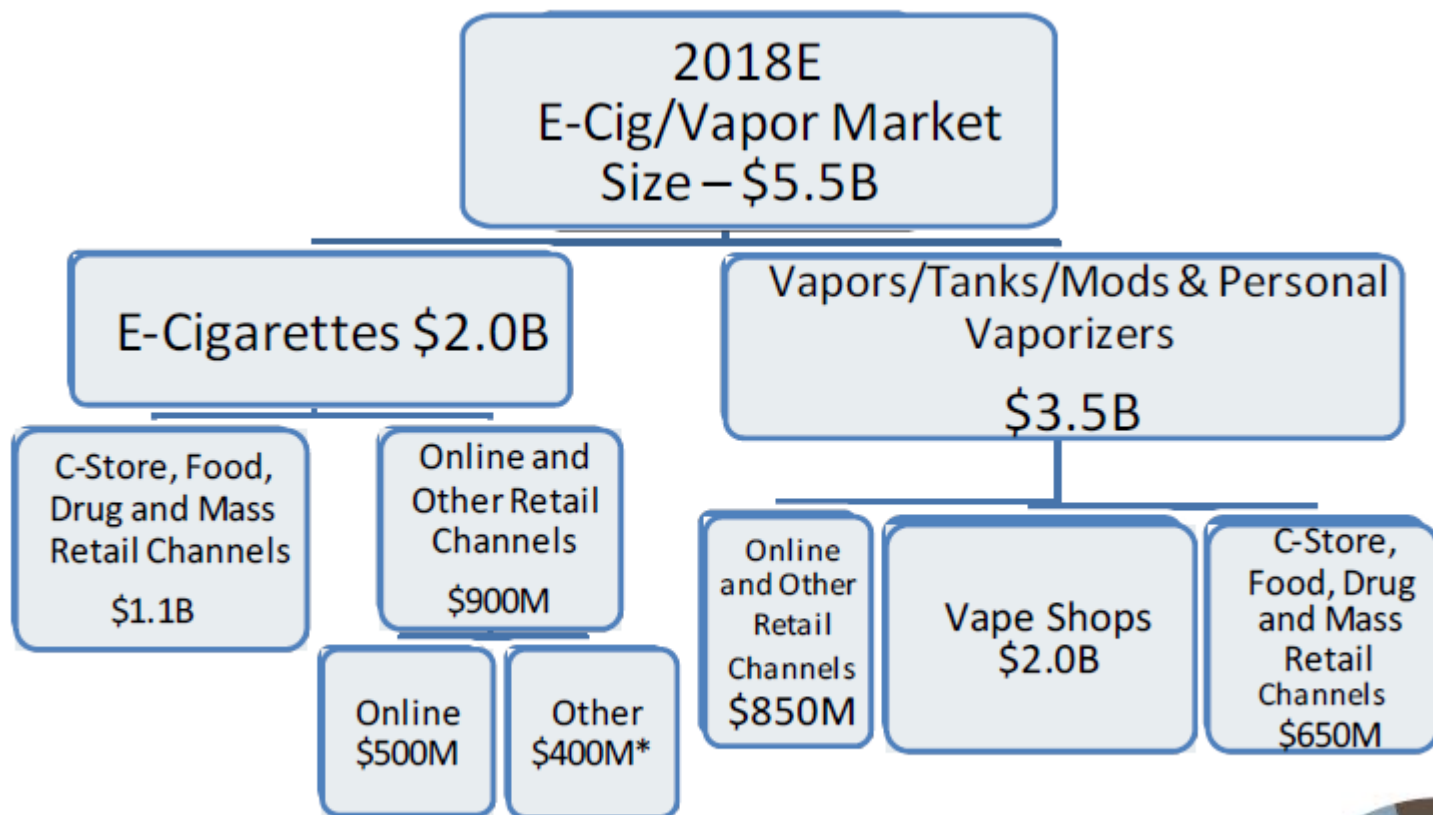
	Cigarette Tax Distribution*							Other Tobacco Tax Distribution			
	General Fund	Health Plan	Tobacco Use Reduction	Mental Health	State Total	Cities, Counties & Public Transit	Total	General Fund	Health Plan	Tobacco Use Reduction	State Total
<b>Distribution Forecast*</b>											
2015-16	36.214	138.247	5.609	18.950	199.020	10.926	209.946	30.983	23.905	2.659	57.547
2016-17	34.266	136.682	5.452	22.318	198.718	10.904	209.622	31.379	24.734	2.751	58.864
2015-17 Biennium	70.480	274.929	11.061	41.268	397.738	21.830	419.568	62.362	48.639	5.410	116.411
2017-18	33.743	131.369	5.240	22.124	192.476	10.480	202.956	32.424	25.384	2.823	60.632
2018-19	32.844	128.001	5.106	22.393	188.343	10.211	198.555	32.608	25.158	2.798	60.564
2017-19 Biennium	66.586	259.370	10.346	44.517	380.819	20.691	401.511	65.032	50.543	5.621	121.196
2019-20	32.954	128.431	5.123	22.469	188.977	10.246	199.223	33.812	26.088	2.901	62.802
2020-21	32.755	127.654	5.092	22.333	187.833	10.184	198.017	34.391	26.534	2.951	63.876
2019-21 Biennium	65.709	256.085	10.215	44.801	376.810	20.429	397.240	68.203	52.622	5.853	126.678
2021-22	32.571	126.937	5.063	22.207	186.778	10.127	196.904	34.981	26.989	3.002	64.971
2022-23	32.381	126.198	5.034	22.078	185.691	10.068	195.759	35.716	27.557	3.065	66.338
2021-23 Biennium	64.952	253.135	10.097	44.285	372.469	20.194	392.663	70.697	54.546	6.066	131.309
2023-24	32.309	125.916	5.023	22.029	185.276	10.045	195.321	36.493	28.156	3.131	67.781
2024-25	31.939	124.474	4.965	21.776	183.154	9.930	193.084	37.218	28.715	3.194	69.127
2023-25 Biennium	64.248	250.390	9.988	43.805	368.430	19.975	388.405	73.711	56.871	6.325	136.907
2025-26	31.610	123.193	4.914	21.552	181.269	9.828	191.097	37.846	29.200	3.248	70.294
2026-27	31.318	122.054	4.868	21.353	179.593	9.737	189.330	38.390	29.619	3.294	71.303
2025-27 Biennium	62.928	245.247	9.782	42.905	360.862	19.565	380.427	76.236	58.819	6.542	141.597

\* 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

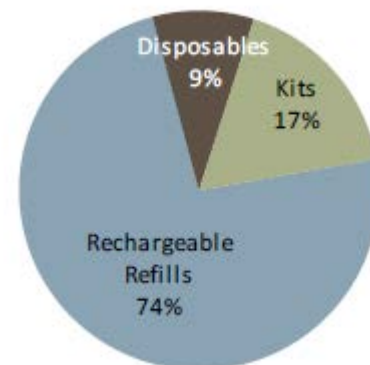


# Vapor Market



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

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



# Government Oversight

- FDA's New Tobacco Rule
  - Extends the FDA's regulatory authority to all tobacco products, including vapor products
  - Products not on market as of 2/15/2007 will have to meet applicable public health standards
  - Premarket compliance date extended to August 2022
  - Flavored products sold in age-restricted locations
  - Remove products marketed to kids
  - Gives FDA future options
- State / Local
  - Taxation
  - Age restriction

# Potential Tax Policies

- Classify the device
  - Oregon – Inhalant delivery system (ORS 431A.175)
- Methods of taxation
  - Specific tax
    - Per milliliter or liquid
    - Nicotine content
    - Similar to Oregon's other tobacco products tax
  - Ad valorem (retail or wholesale price)
    - Generally will tax the price of the mechanism that delivers the product
  - Include/exclude nicotine free products

# Vapor Taxation – Other States

State	Vapor Products Tax
Specific Tax States	
Delaware	1/1/2018   \$0.05 per mL of e-liquid
Kansas	7/1/2017   \$0.05 per mL of e-liquid
Louisiana	8/1/2015   \$0.05 per mL of e-liquid
New Jersey	9/29/2018   \$0.10 per mL of e-liquid
North Carolina	6/1/2015   \$0.05 per mL of e-liquid
West Virginia	7/1/2016   \$0.075 per mL of e-liquid
Ad Valorem Tax States	
California	7/1/2017   62.78% of retail price
Minnesota	7/1/2013   95% of wholesale price
Pennsylvania	10/1/2016   40% of purchase price from wholesaler
D.C.	10/1/2016   96% of wholesale price