

PRELIMINARY DISCUSSION DRAFT

Measure Number: IRR 402

Subject: Increase the Cigarette and Tobacco Product Taxes

Government Unit Affected: State of Oregon, local governments

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Comments

This referral establishes a tax on e-cigarettes and vaping devices and increases taxes on cigarettes and cigars. The increased revenues are dedicated to the Oregon Health Plan and tobacco use prevention and cessation programs.

Fiscal Impact Summary

Executive Branch Assumptions:

- The analysis uses as its starting point the Legislative Revenue Office (LRO) revenue estimate for HB 2270, which passed in the 2019 session and was referred to voters. That analysis was updated to reflect DAS Office of Economic Analysis's current outlook on cigarette and tobacco product tax revenues.
- The one exception was to reduce the original LRO estimate for revenue from the vaping tax due to changes in the vaping market since that estimate was developed.
- The estimates assume that the revenue from the one-time tax on cigarette tax stamps will follow the same statutory distribution as the proposed increase in cigarette taxes even though the measure only specifies that they be deposited into the Oregon Health Authority Fund and does not specify a purpose beyond that.

Based on the projections of the Oregon Department of Revenue, IRR 402 will increase cigarette and tobacco products tax revenues by \$112.1 million in 2019-21 and \$332.7 million in 2021-23. The proposal includes several measures that affect the taxes paid on e-cigarettes, cigarettes and cigars:

- Increase taxes on cigarettes by \$2 per pack of 20 and \$2.50 per pack of 25,
- Tax "little cigars" as if they were cigarettes,
- Increase the cap on the per-cigar tax from \$0.50 to \$1.00,
- Establish a one-time tax on the inventory of cigarette tax stamps held by a distributor as of January 1, 2021, and
- Tax e-cigarettes and vaping devices like other non-cigarette tobacco products.

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The tax increases would take effect on January 1, 2021.

After paying the cost of administration, the measure dedicates 90 percent of the revenue from the increased cigarette, e-cigarette and vaping products taxes to support the Oregon Health Plan and other medical assistance programs, while the remaining 10 percent of the revenue is dedicated to tobacco use prevention and cessation programs operated by local public health authorities, Tribal health authorities, and community-based organizations. The Oregon Health Authority estimates that the federal government will match every dollar spent on the Oregon Health Plan at a rate of 72.7 percent for the remainder of the 2019-21 biennium and a rate of 73.1 percent for the 2021-23 biennium. (Spending on tobacco use prevention and cessation programs would not be eligible for federal matching funds).

While total cigarette tax revenues will increase if the measure passes, the cigarette tax increases will reduce revenue available for some of the programs that currently receive revenue from Oregon's current cigarette tax of \$1.33 per pack of 20. If tax rates were to increase, the number of packs of cigarettes sold in Oregon is expected to decrease. The current cigarette tax of \$1.33 per pack of 20 has different statutory dedications than the proposed \$2 per pack of 20 tax increase so current recipients will receive less revenue than they otherwise would. Everything else being equal, this will lead to a decline in distributions to the General Fund, for mental health programs, and to cities, counties and for public transit, with current law distributions for the Oregon Health Plan and Tobacco Use Reduction Account being more than offset by the increased revenue. Reductions to the General Fund, for mental health, and for cities, counties and public transit are estimated at \$8.5 million in 2019-21 and \$32.8 million in 2021-23.

The measure specifies that the funding is intended for the "maintenance and expansion of the number of persons eligible for medical assistance and funding the maintenance of benefits available under the medical assistance program, including mental health services." In addition, the Department of Revenue estimates that it will cost \$1.0 million in 2019-21 and \$1.3 million in 2021-23 to implement and administer the new tax programs.

Local governments would see a decline in revenue if the proposed measure passes due to the statutory distribution issue discussed above. Cities, counties and public transit would receive \$1.3 million less in 2019-21 and \$5.1 million less in 2021-23.

Local Government Assumptions:

- The proposed increase in tobacco tax will likely reduce the number of packs of cigarettes sold, thus reducing revenue for local governments under the current distribution formula.

Estimate of Financial Impact

This referral increases taxes on cigarettes and cigars and establishes a tax on e-cigarettes and vaping devices and dedicates the revenues to health programs at the Oregon Health Authority.

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The measure will increase net state revenues by \$111.1 million in 2019-21 and \$332.4 million in 2021-23. The measure dedicates 90 percent of the revenue from the increased cigarette tax and the e-cigarette and vaping device tax to support the Oregon Health Plan and other medical assistance programs and 10 percent to tobacco use prevention and cessation programs. The direct expenditure impact of the measure is the cost of administering the tax increases, estimated at \$1.0 million in 2019-21 and \$1.3 million in 2021-23.

Local governments, the state's General Fund, and mental health programs at the Oregon Health Authority would see a decline in revenue if the measure passes. The current cigarette tax and the proposed tax are dedicated to different purposes. Although the state would receive more revenue from the higher tax, fewer packs of cigarettes are expected to be sold if the proposed measure passes which would decrease the distributions received from the current tax. The table below shows the impact of the reduction in packs of cigarettes sold on the current recipients:

<i>All dollars in millions</i>	2019-21 Impact	2021-23 Impact
State General Fund	-\$4.3	-\$16.5
Mental Health Programs	-\$2.9	-\$11.2
Local Governments	-\$1.3	-\$5.2

Beyond the cost of administration, the impact of the revenue increases and decreases on state and local government expenditures is indeterminate and will depend on decisions made by the governing bodies of those governments.