

**REVENUE IMPACT OF
PROPOSED LEGISLATION**
80th Oregon Legislative Assembly
2019 Regular Session
Legislative Revenue Office

Bill Number: HB 2270 - A
Revenue Area: Tobacco Tax
Economist: Dae Baek/Kaitlyn Harger
Date: 6/17/2019

*Only Impacts on Original or Engrossed
Versions are Considered Official*

Measure Description:

Increases the tax rate on cigarette distributions. Dedicates taxes from the additional cigarette tax rate to state's medical assistance program including mental health services, and various programs addressing tobacco and nicotine use related health issues. Amends expense payment provisions in cigarette tax administration and enforcement. Prescribes a floor tax and dedicates such tax to the Oregon Health Authority Fund. Includes little cigars in the definition of cigarettes. Adds to statutes the definition of inhalant delivery system for the purpose of taxing tobacco products. Imposes tax on such system. Dedicates taxes from inhalant delivery system to state's medical assistance program including mental health services, and various programs addressing tobacco and nicotine use related health issues. Removes the cap on the cigar tax. Makes the sale of cigarettes in packages with fewer than 20 cigarettes illegal. Makes the sale of cigars illegal unless the wholesale price of the individual cigar or a package of cigars is above a certain level. Applies to cigarette and tobacco products taxes beginning on or after January 1, 2021. Specifies reporting and information sharing mechanism. Refers this act to the next general election for approval or rejection.

Revenue Impact (in \$Millions):

	Biennium		
	2019-21	2021-23	2023-25
Total Tobacco Taxes	\$112.5	\$340.4	\$340.8
Cigarette Tax (\$2 per pack, little cigars, floor tax)	\$108.7	\$324.0	\$323.1
Inhalant Delivery System	\$6.0	\$25.1	\$26.6
Removal of Cigar Tax Cap	\$0.9	\$3.8	\$3.9
Prohibiting certain cigars (certain minimum wholesale price)	-\$3.1	-\$12.5	-\$12.8

Impact Explanation:

The revenue impact analysis assumes the June 2019 Oregon Economic and Revenue Forecast as the base. The figures here represent changes relative to the forecast if the act is approved by voters.

Cigarette Tax

The measure increases the cigarette tax rate by 100 mills for each cigarette, which equates to \$2 per pack of 20 cigarettes. Under current law, the cigarette tax is \$1.33 per pack of 20 cigarettes. Cigarette taxes serve various

policy purposes. The new tax rate is applicable on or after January 1, 2021 if voters approve the measure. The revenue impact for 2019-21 reflects only the last six months of the biennium, which includes a floor tax of \$26.1 million. Going forward, the \$2 per pack tax increase is expected to bring in additional revenue of about \$160 million a year. Little cigars will be taxed as cigarettes under this measure, but the additional revenue from this change is less than \$0.5 million a year.

Inhalant delivery system

The specified inhalant delivery systems are subject to the other tobacco products tax under this measure. The tax rate applied to these systems is 65% of the wholesale price. This tax is new in the state and the revenue impact draws from experience of other states with similar taxing programs. The tax on specified inhalant delivery systems is not subject to local preemption.

Removal of cigar tax cap

Currently, the tax rate on cigars is 65% of the wholesale price with the cap at 50 cents per stick. Under the measure, the 50-cent cap is removed, and all cigars are subject to the tax rate at 65% of the wholesale price.

Prohibiting certain cigars (wholesale price less than \$3 per stick or a package of minimum four cigars at less than \$12)

Currently, the annual revenue from cigars under the cap runs around a little over \$8 million. The analysis assumes that the wholesale price floor specified in the measure would have the impact of removing the vast majority of inexpensive cigars from the market. Revenue losses are expected from this change in the measure.

Creates, Extends, or Expands Tax Expenditure: Yes No