



May 2004
Volume 2, Issue 1

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Background Brief on...

Tobacco Taxes

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Background

Currently Oregon taxes on tobacco products include an excise tax on cigarettes distributed for consumption in Oregon, an excise tax on wholesalers who distribute other tobacco products for consumption in Oregon, and revenue received under the Master Tobacco Settlement Agreement. In this context, anyone who brings more than one carton of cigarettes into Oregon for consumption is a distributor. Distributors collect the cigarette taxes. Other tobacco products include cigars, pipe tobacco, chewing tobacco, and snuff.

The Oregon Legislature first imposed an excise tax on cigarettes at 4¢ per pack effective July 1, 1966. Revenue was distributed to the counties to reduce property taxes (50%) and to cities and counties (25% each). The Legislature increased the permanent rate to 9¢ in 1971, to 27¢ in 1985, and to 28¢ in 1989. Ballot Measure 44 in 1996 (initiative petition) increased the permanent rate to 58¢. Measure 20 in 2002 increased the permanent rate to \$1.18. A temporary rate of 7¢ was passed by the 1981 & 1982 Special Sessions and allowed to sunset. A temporary rate of 10¢ was passed in 1993 with a July 1, 1995 sunset. The sunset has been extended each Session until January 1, 2004. The renewal of the 10¢ temporary rate was part of Measure 30 that failed to pass in 2004; therefore it is no longer effective.

The tax rate on other tobacco products is based on wholesale price but for cigars it is limited to a per cigar amount. The Oregon Legislature first imposed an excise tax at 35% of wholesale price on other tobacco products in 1985. Revenue went to the General Fund. Ballot Measure 44 in 1996 (initiative petition) increased the rate to 65%. The 2001 Legislature limited the tax on cigars to 50¢ per cigar.

A suit by 46 states against 4 tobacco companies resulted in a 1998 Master Settlement Agreement. The settling companies agreed to make payments to the states in perpetuity, based on domestic cigarette consumption. Actual payments are determined annually based on numerous adjustments and conditions. Oregon receives 1.15% of these payments. In 2000, Measure 89 (legislative referral) and Measure 4 (initiative petition) dedicated payments under the Master Settlement Agreement. Both Measures failed, so the first appropriations were by the 2001 Legislature in Senate Bill 5553.

Oregon Law

Taxes are levied on each cigarette and as a percent of wholesale price of other tobacco products, but limited to 50¢ per cigar. The permanent tax rate on cigarettes is \$1.18 and the other tobacco products tax rate is 65% of wholesale price. A temporary tax of 10¢ on cigarettes, dedicated to the Oregon Health Plan, was voted down along with measure 30 in 2004. Cigarette tax is distributed to the General Fund (17.19%), the Oregon Health Plan (74.79%), tobacco cessation programs (2.67%), cities (1.78%), counties (1.78%), and to ODOT for senior and disabled transit (1.78%). Distributions to cities and counties are based on population. The Other Tobacco Products tax is distributed to the General Fund (53.85%), the Oregon Health Plan (41.54%), and tobacco cessation programs (4.62%).

Additional tobacco revenue is received under the Master Settlement Agreement. Through June 30, 2002, Oregon has received about \$336 million in payments from manufacturers by the end of the 2001-03 biennium. The Fifth 2002 Special Session arranged to pledge a portion of these revenues beginning in 2004 for \$150 million in bond proceeds for grants to schools in 2002-03 (see RB #9-02).

Tobacco Tax Revenue

The table below shows cigarette and other tobacco products tax (OTP) collections by the Department of Revenue and payments received under the Master Settlement Agreement (MSA) since 1990-91.

Revenues are in millions of dollars.

| Fiscal Year | Cigarette Tax | OTP Tax | MSA | Total Revenue |
|-------------|---------------|---------|------|---------------|
| 1990-91 | 78.2 | 6.6 | | 84.8 |
| 1991-92 | 80.2 | 7.3 | | 87.5 |
| 1992-93 | 78.2 | 8.0 | | 86.2 |
| 1993-94 | 96.0 | 8.7 | | 104.7 |
| 1994-95 | 107.2 | 9.9 | | 117.1 |
| 1995-96 | 109.2 | 11.0 | | 120.2 |
| 1996-97 | 141.7 | 12.8 | | 154.5 |
| 1997-98 | 183.5 | 19.5 | | 203.1 |
| 1998-99 | 173.4 | 19.9 | | 240.9 |
| 1999-00 | 164.0 | 20.4 | 92.7 | 277.1 |
| 2000-01 | 158.6 | 20.9 | 68.9 | 248.4 |
| 2001-02 | 155.0 | 20.1 | 86.5 | 261.6 |
| 2002-03 | 222.0 | 20.9 | 87.3 | 330.2 |

Revenue Distribution

Tobacco tax revenues are distributed to the General Fund, the Oregon Health Plan (OHP), the Tobacco Use Reduction Account (TURA), and equally to the Department of Transportation for senior and disabled transportation, to cities, and to counties (Local). MSA payments through the 2003-05 biennium are expected to be around \$150 million. With the exception of about \$42 million that will fund the Oregon Health Plan Medicaid Program, most of the revenue will pay for different bond programs approved previously in the special sessions or in the 2003 regular session.

Amounts in millions of dollars.

| Fiscal Year | General Fund | OHP | TURA | Local |
|-------------|--------------|-------|------|-------|
| 1990-91 | 68.0 | | | 16.8 |
| 1991-92 | 70.3 | | | 17.2 |
| 1992-93 | 69.4 | | | 16.8 |
| 1993-94 | 70.9 | 16.8 | | 17.0 |
| 1994-95 | 72.0 | 28.2 | | 16.9 |
| 1995-96 | 74.0 | 29.0 | | 17.2 |
| 1996-97 | 102.3 | 31.8 | 3.5 | 17.0 |
| 1997-98 | 74.3 | 117.1 | 9.7 | 17.8 |
| 1998-99 | 66.6 | 101.7 | 8.5 | 15.1 |
| 1999-00 | 63.4 | 99.0 | 8.3 | 14.7 |
| 2000-01 | 63.0 | 93.0 | 7.8 | 13.7 |
| 2001-02 | 60.9 | 92.7 | 7.8 | 13.7 |
| 2002-03 | 57.1 | 162.3 | 9.7 | 13.9 |

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