



November 2006

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Background Brief on ...

Tobacco Taxes

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Background

Oregon taxes on tobacco products currently 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. Distributors collect the cigarette taxes, and in this context, anyone who brings more than one carton of cigarettes into Oregon for consumption is a distributor. Other tobacco products include cigars, pipe tobacco, chewing tobacco, and snuff.

The Legislature first imposed an excise tax on cigarettes at four cents per pack effective July 1966. Revenue was distributed to the counties to reduce property taxes (50 percent) and to cities and counties (25 percent each). The Legislature increased the permanent rate to nine cents in 1971, to 27 cents in 1985, and to 28 cents in 1989. Ballot Measure 44 1996 (1996) increased the permanent rate to 58 cents. Ballot Measure 20 in 2002 increased the permanent rate to \$1.18. A temporary rate of seven cents was passed during the 1981 and 1982 Special Sessions and allowed to sunset. A temporary rate of 10 cents was passed in 1993 with a July 1995 sunset. The sunset has been extended each Session until January 2004. The renewal of the temporary rate was part of Measure 30 that failed to pass in 2004, which meant the 10 cents temporary rate elapsed on the last day of 2003.

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

A suit by 46 states against four tobacco companies resulted in the 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 percent of these payments. In 2000, Ballot Measure 89 (legislative referral) and Ballot Measure 4 (initiative petition) sought to dedicate payments under the Master Settlement Agreement. Both Measures failed, so the first appropriations were made by the Senate

Bill 5553 (2001). In 2006, payment are reduced for market share loss.

Oregon Law

Taxes are levied on each cigarette and as a percent of wholesale price of other tobacco products, but limited to 50 cents per cigar. The permanent tax rate on cigarettes is \$1.18 and the other tobacco products tax rate is 65 percent of wholesale price. A temporary tax of 10 cents on cigarettes, dedicated to the Oregon Health Plan, was voted down along with Ballot Measure 30 (2004). Cigarette taxes are distributed in the following way: 22 cents is distributed to the General Fund (18.64 percent), the Health Plan gets 85.7 cents (72.66 percent), 3.4 cents went to the tobacco cessation programs (2.9 percent), and 2.3 cents (1.93 percent) each to cities, counties, and to ODOT for senior and disabled transit. Distributions within cities and counties are based on population. The Other Tobacco Products tax is distributed to the General Fund (53.85 percent), the Health Plan (41.54 percent), and tobacco cessation programs (4.62 percent).

Additional tobacco revenue is received under the Master Settlement Agreement. Through June 30, 2005, Oregon has received \$501.2 million in payments from cigarette manufacturers and expects to receive (unless reduction by tobacco companies stands) slightly above \$145 million for the 2005-07 biennium. Senate Bill 856 (2003) managed to pledge much of this revenue for payments on \$450 million in bond proceeds, which were used for grants to schools in 2002-03, offsetting the decreases in school funding for that period. Other bonds were also pledged against the expected revenues, leaving smaller unobligated future amounts. In 2006, the tobacco companies started withholding about \$15 million a year as their market share decreased both nationally and in Oregon. The Attorney General has entered litigation against this action.

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 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 |
| 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 | 199.5 | 19.5 | | 219.0 |
| 1998-99 | 172.0 | 19.8 | | 191.9 |
| 1999-00 | 161.8 | 20.2 | 92.7 | 274.7 |
| 2000-01 | 156.7 | 20.8 | 68.9 | 246.4 |
| 2001-02 | 155.0 | 20.1 | 86.5 | 261.6 |
| 2002-03 | 222.0 | 20.9 | 87.3 | 330.2 |
| 2003-04 | 240.1 | 25.3 | 72.1 | 337.5 |
| 2004-05 | 217.8 | 26.0 | 73.1 | 316.9 |
| 2005-06 | 238.7 | 31.2 | 66.3 | 336.2 |

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 total payments through the 2005-07 biennium are expected to be around \$620 million. With the exception of about \$42 million in 03-05 biennium and \$24 million in 05-07 biennium that will fund the Oregon Health Plan Medicaid Program, most of the revenue will pay

for different bond programs approved previously in the 2002 special sessions or in the 2003 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 | 57.0 | 160.9 | 9.6 | 13.7 |
| 2003-04 | 49.1 | 184.8 | 7.6 | 13.2 |
| 2004-05 | 57.1 | 168.5 | 7.3 | 12.7 |
| 2005-06 | 60.0 | 169.5 | 7.5 | 12.7 |

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