



June 2008

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Background Brief on ...

Tobacco Taxes

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Oregon tax revenue from tobacco products comes from three main sources. 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, defined as anyone who brings more than one carton of cigarettes into Oregon for consumption, collect the cigarette taxes and are allowed 0.4 cents per pack as compensation. Other Tobacco Products (**OTP**) include cigars, pipe tobacco, chewing tobacco, and snuff. OTP distributors are allowed 1.5 percent of total tax owed for their collection costs (ORS 323.505(3)).

The Legislature first imposed an excise tax on cigarettes at four cents per pack effective July 1966. Revenue was distributed to the counties (50 percent) to reduce property taxes, and to cities and counties (25 percent each). The legislature increased the permanent rate to 9 cents in 1971, to 27 cents in 1985, and to 28 cents in 1989. Ballot Measure 44 in 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 Legislative Sessions and was allowed to sunset. A temporary rate of ten cents was passed in 1993 with a July 1995 sunset. The sunset was extended each legislative session until 2004. Measure 30, which failed to pass in the 2004 Special Election, included the rate renewal, which meant the ten-cent temporary rate elapsed on the last day of 2003. Ballot Measure 50 of 2007, which attempted to increase the tax to \$2.025, did not pass.

The tax rate on OTP is based on wholesale price, though for cigars it is limited to a per-cigar amount. The legislature first imposed an excise tax at 35 percent of wholesale price on OTP in 1985, and revenue went to the General Fund. Ballot Measure 44 (1996) increased the rate to 65 percent, and included the Oregon Health Plan and tobacco reduction in the distribution. The 2001 Legislative Assembly limited the tax on cigars to 50 cents per cigar.

A suit by 46 states against 4 tobacco companies resulted in the 1998 Master Settlement Agreement (**MSA**). 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 about 1.15 percent of these payments. In 2000, Ballot Measure 89

(through legislative referral) and Ballot Measure 4 (by initiative petition) sought to dedicate payments under the MSA. Both measures failed, so the first appropriations were made by Senate Bill 5553 that was enacted by the 2001 Legislative Assembly. Senate Bill 856 (2003) pledged much of this revenue for payments on \$450 million in bond proceeds that were used for grants to schools in 2002-2003, offsetting decreases in school funding for that period. In 2006, MSA payments were reduced by the manufacturers for market share loss.

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Taxes are levied on each cigarette and as a percent of wholesale price of OTP, but limited to 50 cents per cigar. The permanent tax rate on cigarettes is \$1.18 and the OTP tax rate is 65 percent of wholesale price. Cigarette taxes are distributed in the following way: 22 cents to the General Fund (18.64 percent), 85.7 cents to the Oregon Health Plan (72.66 percent), 3.4 cents to tobacco cessation programs (2.9 percent), and 2.3 cents (1.93 percent) each to cities, counties, and for senior and disabled transit. Distributions within cities and counties are based on population. The OTP tax is distributed to the General Fund (53.85 percent), the Oregon Health Plan (41.54 percent), and tobacco cessation programs (4.62 percent).

Additional tobacco revenue is received under the MSA. Through June 30, 2007, Oregon has received about \$637 million in payments from cigarette manufacturers and expects to receive slightly above \$90 million a year. Bonds were pledged against the expected revenues leaving small future amounts unobligated. In 2006, the tobacco companies started withholding about \$15 million a year as their market share decreased both nationally and in Oregon. If this reduction by tobacco companies continues, it will affect future expected revenues. The Attorney General has entered into litigation against this action.

Tobacco Tax Revenue

The following table shows cigarette and OTP collections by the Department of Revenue and payments received under the MSA since 1990-1991.

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	67.1	336.0
2006-07	240.2	30.9	69.7	340.8

Revenue Distribution

Tobacco tax revenues are distributed to the General Fund, the Oregon Health Plan (OHP), the Tobacco Use Reduction Account, and equally to the Department of Transportation for senior and disabled transportation, to cities and to counties. Those distributions are shown in the following table. The MSA total payments through the 2007-2009 biennium are expected to be around \$821 million. In the 2001-2003 biennium, the revenue was spent in the General Fund and health programs. Since then, with the exception of some tobacco enforcement expenditures, \$42 million in 2003-2005 biennium and \$9 million in 2005-2007 biennium funded the OHP. The rest of the revenue will pay for different bond programs previously approved.

Distribution Amounts

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	93	7.8	13.7
2001-02	60.9	92.7	7.8	13.7
2002-03	57.1	164	7.9	14.0
2003-04	53.9	184.8	7.8	13.2
2004-05	52.5	168.5	7.3	12.9
2005-06	59.4	180.7	8.1	13.0
2006-07	60.6	185.3	8.3	13.8

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503-986-1266