Overview

• Brief review of evidence on impact of price on e-cigarette demand

• Mechanics of taxation
  – Tax structure (ad valorem vs. specific)
  – What product(s) to tax
  – Where to collect tax

• Level of tax
  – What level relative to combustible products
  – Use of tax revenues
  – Messaging
Price & E-Cigarette Demand
Disposable Electronic Cigarettes
Sales Volume and Price:
Total US 2010 - 2012
Reusable Electronic Cigarettes
Sale Volume and Price:
Total US 2010 - 2012
Conclusions & Summary

• Huang, et al., *Tobacco Control*, 2014
  • Overall sales of e-cigarettes are sensitive to price changes
  • A 10% increase in price reduces sales of disposable e-cigarettes by approximately 12%, and by about 19% for reusable e-cigarettes.
  • Sales of disposable e-cigarettes were higher in markets with stronger SFA policies.
  • No consistent statistical significant relationship between cigarette prices and e-cigarette sales.
  • Increasing reusable e-cigarette price will lead to an increase in disposable e-cigarette sales.
Rationale for ENDS Taxation

- Improve Public Health
  - Encourage switching from combusted to potentially ‘less harmful’ products
  - Prevent youth initiation
- Raise Revenue
  - Revenue replacement
- Others?
Mechanics of ENDS Taxation
State and Local Overview: ENDS Taxes

- Minnesota is the only state to implement a tax on e-cigarettes
- North Carolina adopted tax; will implement in 2015
- Other states have discussed or are considering
- No localities have applied a tax to e-cigarettes as far as we know
Minnesota ENDS Tax

- Minnesota taxes e-cigarettes at 95% of the wholesale price by determining that they fall in the definition of a tobacco product
- Based on Department of Revenue decision that e-cigarettes fit the state’s definition of a tobacco product
- Public health community not actively involved in the decision
An electronic cigarette or e-cigarette is a device that simulates smoking tobacco. In Minnesota, e-cigarettes and e-juice which contain nicotine derived from tobacco meet the definition of a tobacco product found in (Minnesota Statutes, section 297F.01, subdivision 19).

E-Cigarettes are taxable.

E-cigarettes and e-juice are considered tobacco products and are subject to the Tobacco Tax, which is currently 95% of the wholesale cost of any product containing or derived from tobacco.

Source: [http://www.revenue.state.mn.us/businesses/tobacco/Pages/e-Cig.aspx](http://www.revenue.state.mn.us/businesses/tobacco/Pages/e-Cig.aspx)
Minnesota ENDS Tax

- Minnesota tax based on value of the e-juice
  - But if sold as part of a package (e.g. reusable e-cigarettes or starter kits), tax applied to entire package
- Taxes collected from licensed ‘distributors’
  - Retailers, vape shops can get list of licensed distributors from state tax authorities
- Active enforcement
  - Compliance checks of retailers, vape shops to determine if taxes have been paid
  - Untaxed products subject to seizure
North Carolina ENDS Tax

• New excise tax on vapor products adopted May 2014; effective July 1, 2015
  • RJR proposal; no public health input
• Five-cents per milliliter of ‘consumable product’
  • “any nicotine liquid solution or other material that is depleted as vapor product is used”
• Taxes collected from licensed distributors
  • Retailers, vape shops can be licensed as distributors
  • Similar to approach used for OTP tax
• Relatively passive enforcement
  • Efforts to increase awareness of tax among distributors, retailers
Importance of Definitions

• State statutory definitions of e-cigarettes can be categorized as*:
  • *Inclusive*: e-cigarettes are included in the statutory definitions of tobacco products (9 states)
  • *Neutral*: e-cigarettes are defined separately from tobacco products in statute, but not exempted from future inclusion in the definition of tobacco products or further application of tobacco control-related statutes (14 states)
  • *Exempting*: e-cigarettes are explicitly exempt from being defined or treated as a tobacco product by statute (6 states)

* Note these reflect definitions as of early 2014.
Mechanics of ENDS Taxes

• *Ad Valorem* vs. Specific Excise Tax
  • Diversity and rapid evolution of products suggests *ad valorem* tax would be easier to administer

• Disadvantages of *Ad Valorem Tax*:
  • Valuation problems
  • Tax depends on industry pricing strategies
  • Larger price gaps between high, low priced products
  • High tax on devices could discourage use

• Advantages of *Ad Valorem Tax*:
  • Is not eroded by inflation
Mechanics of ENDS Taxes

• What to tax?
  • All products/components vs. e-juice?
  • Only products that contain nicotine?
  • All nicotine vs. nicotine derived from tobacco?

• Where to collect tax?
  • Distributor vs. retailer?
  • Need for licensing
Level of ENDS Taxation
Option A: Low e-cigarette price

• Apply little or no tax

• Rationale:
  • Maximize switching

• Potential consequences:
  • Promotes initiation, gateway to combustible use
  • Encourages dual use
Option B: Increase e-cigarette price

- Tax e-cigarettes while increasing taxes on combustible tobacco products
  - Maintain or increase relative price of combustibles
- Rationale:
  - Maximize switching
  - Discourage dual use
  - Discourage initiation
  - Discourage combustible use
Option C: High e-cigarette price

- Parity with combustible taxes
- Rationale:
  - Discourage youth initiation
  - Treat all tobacco products the same
  - Discourage dual use
- Potential consequences:
  - Discourage switching
Recommended Approach:

• Tax e-cigarettes while increasing taxes on cigarettes and other tobacco products
  • Maintain or increase relative price of combustibles
  • Maximize switching while discouraging initiation and dual use
  • Use revenues to support prevention and cessation programs
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