

tobacconomics

Economic Research Informing Tobacco Control Policy

Taxing E-Cigarettes – Options and Potential Public Health Impact

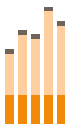
Frank J. Chaloupka, University of Illinois at Chicago

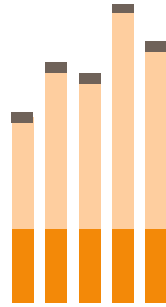
E-Cigarette Tax Policy Research Meeting

Oakland, CA, January 22, 2015

Overview

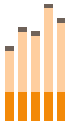
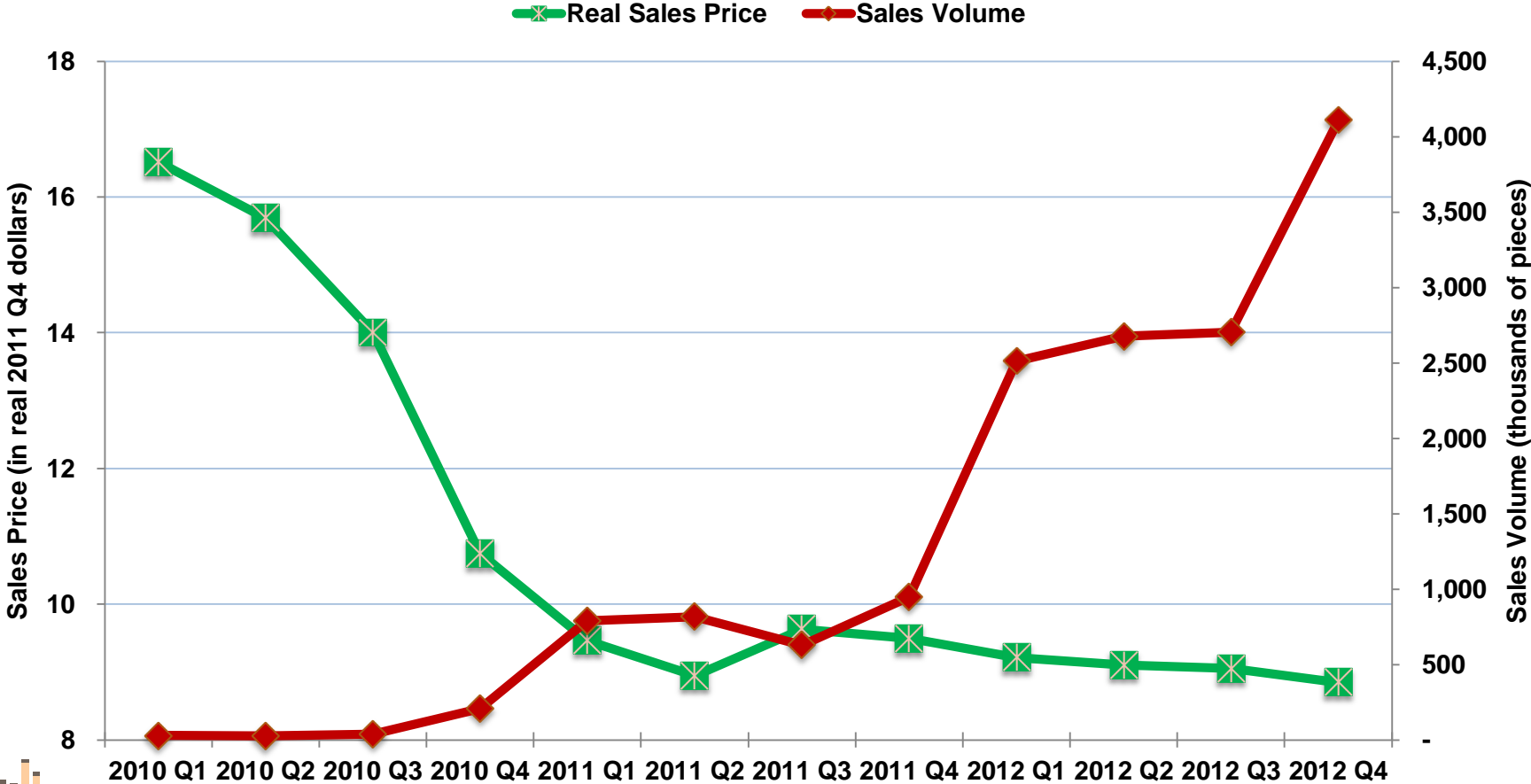
- Brief review of evidence on impact of price on e-cigarette demand
- Mechanics of taxation
 - Tax structure (*ad valorem* vs. specific)
 - What product(s) to tax
 - Where to collect tax
- Level of tax
 - What level relative to combustible products
 - Use of tax revenues
 - Messaging





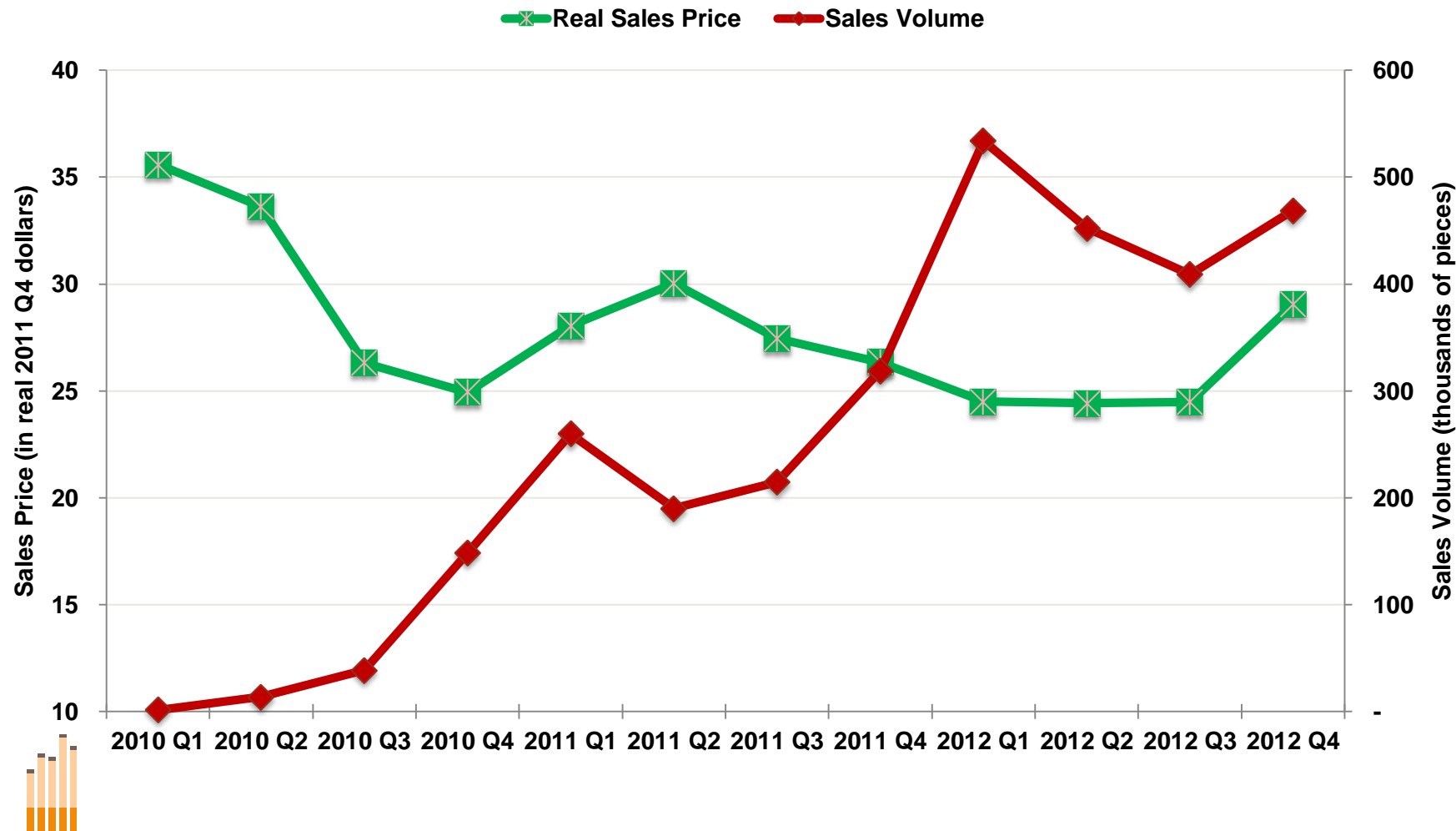
Price & E-Cigarette Demand

Disposable Electronic Cigarettes Sales Volume and Price: Total US 2010 - 2012



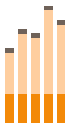
Reusable Electronic Cigarettes Sale Volume and Price:

Total US 2010 - 2012



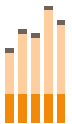
Conclusions & Summary

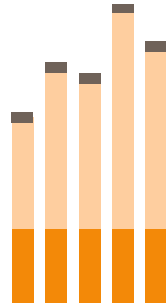
- Huang, et al., *Tobacco Control*, 2014
 - Overall sales of e-cigarettes are sensitive to price changes
 - A 10% increase in price reduces sales of disposable e-cigarettes by approximately 12%, and by about 19% for reusable e-cigarettes.
 - Sales of disposable e-cigarettes were higher in markets with 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?

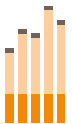




Mechanics of ENDS Taxation

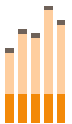
State and Local Overview: ENDS Taxes

- 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

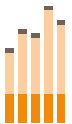
- Minnesota taxes e-cigarettes at 95% of the wholesale price by determining that they fall in the definition of a tobacco product
- Based on Department of Revenue decision that e-cigarettes fit the state's definition of a tobacco product
- Public health community not actively involved in the decision



Minnesota Language – Department of Revenue

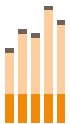
- Minnesota Dept. of Revenue memo:
 - An electronic cigarette or e-cigarette is a device that simulates smoking tobacco. In Minnesota, e-cigarettes and e-juice which contain nicotine derived from tobacco meet the definition of a tobacco product found in (Minnesota Statutes, section 297F.01, subdivision 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>



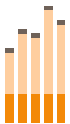
Minnesota ENDS Tax

- 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

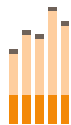
- New excise tax on vapor products adopted May 2014; effective July 1, 2015
 - RJR proposal; no public health input
- Five-cents per milliliter of ‘consumable product’
 - “any nicotine liquid solution or other material that is depleted as vapor product is used”
- Taxes collected from licensed distributors
 - 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

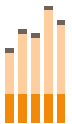
- State statutory definitions of e-cigarettes can be categorized as*:
 - Inclusive: e-cigarettes are included in the statutory definitions of tobacco products (9 states)
 - Neutral: e-cigarettes are defined separately from tobacco products in statute, but not exempted from future inclusion in the definition 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.



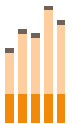
Mechanics of ENDS Taxes

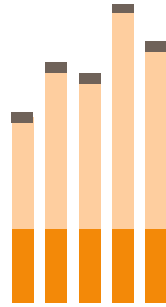
- *Ad Valorem* vs. Specific Excise Tax
 - Diversity and rapid evolution of products suggests *ad valorem* tax would be easier to administer
- Disadvantages of *Ad Valorem Tax*:
 - Valuation problems
 - Tax depends on industry pricing strategies
 - Larger price gaps between high, low priced products
 - 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



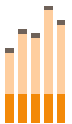


Level of ENDS Taxation

Option A:

Low e-cigarette price

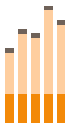
- Apply little or no tax
- Rationale:
 - Maximize switching
- Potential consequences:
 - Promotes initiation, gateway to combustible use
 - Encourages dual use



Option B:

Increase e-cigarette price

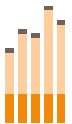
- Tax e-cigarettes while increasing taxes on combustible tobacco products
 - Maintain or increase relative price of combustibles
- Rationale:
 - Maximize switching
 - Discourage dual use
 - Discourage initiation
 - Discourage combustible use



Option C:

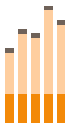
High e-cigarette price

- 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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