

# State Board of Equalization ECONOMIC PERSPECTIVE

Discussion of Recent Economic Developments  
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## Perspectives on Tobacco

### November Initiative

Proposition 56, an initiative on the November ballot, would add \$2.00 per pack to the existing California cigarette excise tax, which would also trigger an equivalent increase in excise taxes on other tobacco products. If this tax were passed on to consumers, cigarette prices would increase by 36 percent. This edition of the *Economic Perspective* reviews the California cigarette and tobacco products markets and associated revenues to enhance understanding of the initiative's context.

### California Excise Tax Rates

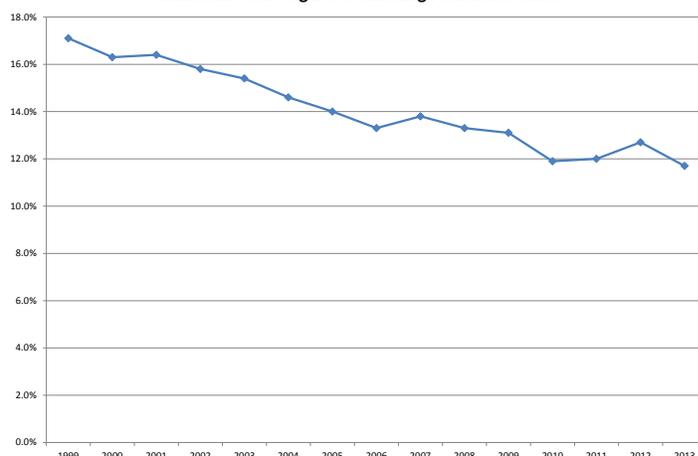
California taxes cigarettes at a rate of \$0.87 per pack (20 cigarettes per pack), ranking 36<sup>th</sup> among the states. This rate became effective January 1, 1999, and comprises about 16 percent of average 2015 statewide cigarette retail prices.

Other tobacco products are also subject to California excise taxes. Rates on these products are related to the tax on cigarettes, and are set annually by the Board of Equalization (BOE) as required by state law. The rate set for the current fiscal year is 27.30 percent of the wholesale cost of tobacco products.

### Cigarette and Tobacco Revenues

In fiscal year 2014–15, California excise tax revenues associated with cigarettes and tobacco products totaled \$841.4 million. Approximately 90 percent of these revenues originated from cigarette sales, and the remaining ten percent derived from other tobacco products, such as snuff, cigars, and pipe tobacco. These figures do not include revenues related to eVapor products, such as electronic cigarettes. While the eVapor product market is growing rapidly, national data for 2014 indicated that they constitute less than one percent of the volume of nicotine delivery products.<sup>1</sup>

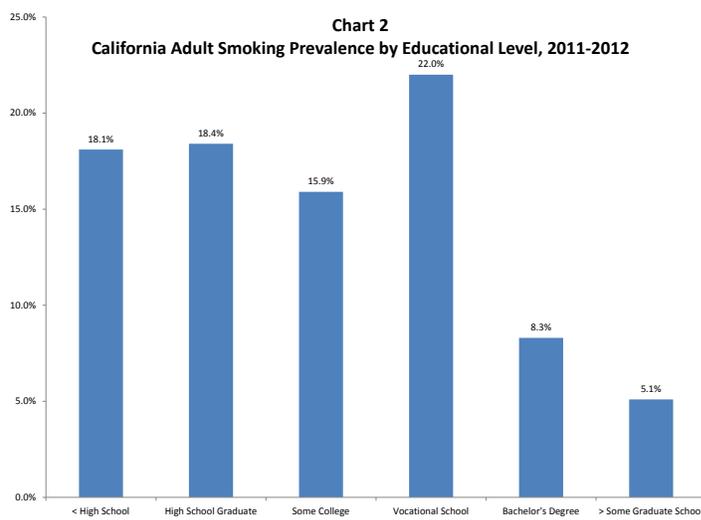
Chart 1  
California Adult Cigarette Smoking Prevalence Rates



### Current Cigarette Smoking

As shown in Chart 1, California adults who smoke cigarettes have declined from 17.1 percent in 1999 to 11.7 percent by 2013.<sup>2</sup> California has the lowest smoking prevalence rate of any state except Utah.<sup>3</sup> The most recent corresponding national percentage is 16.8 percent (2014 data).<sup>4</sup>

Chart 2  
California Adult Smoking Prevalence by Educational Level, 2011-2012



<sup>1</sup> CSP Daily News, *Nicotine Category Gains and Losses*, [www.cspdailynews.com/category-data/tobacco-data/report/nicotine-category-gains-losses](http://www.cspdailynews.com/category-data/tobacco-data/report/nicotine-category-gains-losses)

<sup>2</sup> All the California smoking prevalence rate data cited are from the California Department of Public Health, *California Tobacco Facts and Figures 2015: 25 Years of Tobacco Control in California*, <https://www.cdph.ca.gov/programs/tobacco/Documents/Resources/Fact%20Sheets/Facts%20and%20Figures%202015%20Powerpoint%20Slides.pdf>

<sup>3</sup> U.S. Centers for Disease Control and Prevention, *Map of Current Cigarette Use Among Adults*, [www.cdc.gov/statesystem/cigaretteuseadult.html](http://www.cdc.gov/statesystem/cigaretteuseadult.html)

<sup>4</sup> U.S. Centers for Disease Control and Prevention, *Morbidity and Mortality Weekly Report Weekly / Vol. 64 / No. 44 November 13, 2015, Current Cigarette Smoking Among Adults—United States, 2005–2014*, [www.cdc.gov/mmwr/preview/mmwrhtml/mm6444a2.htm?s\\_cid=mm6444a2\\_w](http://www.cdc.gov/mmwr/preview/mmwrhtml/mm6444a2.htm?s_cid=mm6444a2_w)

Table 1

County	Adult Smoking Prevalence Rate 2011–2012
Yuba	28.4%
Lake	28.0%
Shasta	26.8%
Solano	21.3%
Kern	19.4%
Alpine	18.2%
Amador	18.2%
Butte	18.2%
Calaveras	18.2%
Inyo	18.2%
Mariposa	18.2%
Mono	18.2%
Tuolumne	18.2%
Humboldt	17.9%
Sacramento	17.9%
Tulare	17.8%
San Benito	17.6%
Stanislaus	17.5%
Kings	16.8%
Del Norte	16.7%
Lassen	16.7%
Modoc	16.7%
Plumas	16.7%
Sierra	16.7%
Siskiyou	16.7%
Trinity	16.7%
Madera	16.4%
Santa Cruz	15.8%
Fresno	15.4%
Colusa	15.3%
Glenn	15.3%
Tehama	15.3%
Merced	14.9%
San Bernardino	14.6%
San Joaquin	14.6%
Riverside	14.5%
Los Angeles	14.2%
Nevada	14.1%
San Francisco	14.0%
Mendocino	13.8%
Imperial	13.7%
Sonoma	13.5%

County	Adult Smoking Prevalence Rate 2011–2012
Sutter	13.3%
San Diego	13.1%
Santa Barbara	13.1%
El Dorado	12.6%
Ventura	12.3%
Orange	12.0%
Alameda	11.9%
Contra Costa	11.8%
San Luis Obispo	11.3%
Monterey	10.8%
Santa Clara	8.9%
Placer	8.4%
Napa	7.8%
San Mateo	7.7%
Yolo	6.7%
Marin	6.0%

These smoking prevalence rates differ greatly among different population groups and geographic settings, and tend to decrease dramatically with higher levels of income and education. As presented in Chart 2, California prevalence rates vary from 5.1 percent for adults whose highest level of educational attainment includes some graduate school to 18.1 percent for those who have less than a high school education. Those completing vocational schools smoke the most, 22.0 percent.

### County Smoking Prevalence Rates

The California Department of Public Health estimated cigarette smoking prevalence rates by county. Table 1 displays these rates for 2011-12, ranked from high to low. County rates diverge dramatically. Smoking rates tend to be much higher in rural counties and lower in urban counties. Yuba, Lake, and Shasta have the highest county prevalence rates (28.4%, 28.0%, and 26.8%), while Marin, Yolo, and San Mateo have the lowest rates (6.0%, 6.7%, and 7.7%). The average statewide smoking prevalence rate for this survey was 13.8 percent of adults.

### Cigarette Consumption per Day

BOE data reveals that Californians purchased 860 million packs of cigarettes in fiscal year 2015–16 (preliminary estimate). According to the California Department of Public Health, about 3.8 million people smoke in the state. These data combined indicate that the typical California smoker consumed about 12 cigarettes per day.

### Cigarette Prices and Sales Taxes

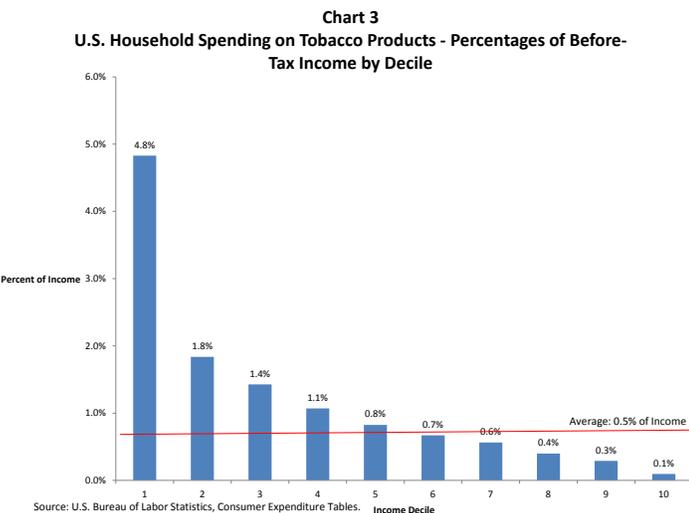
California cigarette prices averaged \$5.61 per pack in 2015.<sup>5</sup> State and federal taxes accounted for \$1.88 of the typical pack price, or 33.5 percent. Sales tax applies to cigarette excise taxes, which are included in the retail price. At an average statewide tax rate of 8.42 percent, sales tax totals to \$0.47 per pack, bringing the typical price per pack to \$6.08, including sales tax. This price is slightly above the comparable national average weighted price of \$5.97.<sup>6</sup>

### Impact of Tax Increases on Cigarette Sales

In 2010, the BOE studied how cigarette sales historically have responded to excise tax increases. California cigarette sales have always declined when state or federal excise taxes rose significantly. Excise tax increases ranged from 14 to 60 percent of retail cigarette prices, while packs sold dropped from two to 11 percent. While sales slumped, revenues consistently rose with the added taxes. Additional information on this study is available on the BOE’s website: [www.boe.ca.gov/legdiv/pdf/cigarette\\_price\\_effects\\_d2.pdf](http://www.boe.ca.gov/legdiv/pdf/cigarette_price_effects_d2.pdf)

### Cigarette Spending and Income

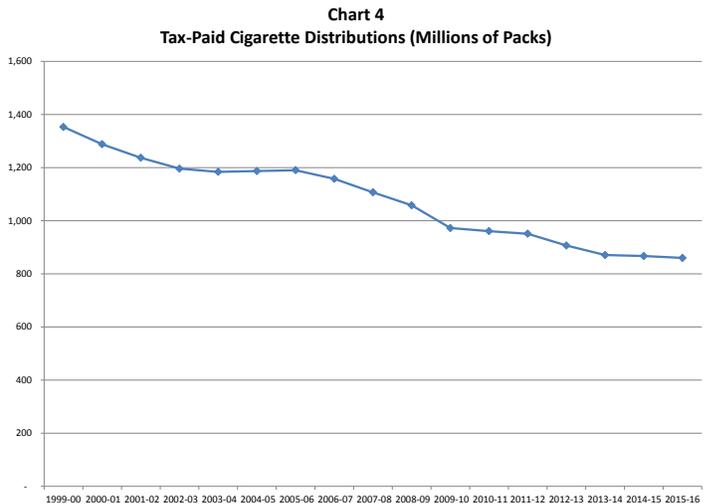
Average cigarette consumption and prices cited earlier imply typical annual spending of \$1,380 per smoker. As mentioned previously, smoking prevalence rates tend to decline sharply as incomes rise. The Bureau of Labor Statistics tabulates national cigarette and tobacco product spending by income level. Chart 3 shows that national percentages of household spending on tobacco range from 4.8 percent of income for the lowest income decile (household with lowest ten percent of income) to 0.1 percent for the highest earning decile. The great variation in these percentages reflects the higher smoking prevalence rates of low-income groups, the relatively constant tobacco spending per smoker regardless of income, and wide ranging differences in household income.



<sup>5</sup> Tax Burden on Tobacco, Orzechowski and Walker

### Trends in California Cigarette Sales

California cigarette sales fell dramatically over the years, averaging annual declines of over three percent per year since 1980. While the California excise tax on cigarettes has not changed since January 1, 1999, sales have continued to drop. As shown in Chart 4, California tax-paid cigarette distributions shrank from 1.353 billion packs in fiscal year 1999–00 to 860 million by 2015–16, falling 36 percent.



### Trends in California Tobacco Products Sales

In contrast to cigarettes, sales of other tobacco products have generally increased over time, as shown in Chart 5. BOE data shows that wholesale sales of tobacco products nearly tripled from fiscal year 1999–00 to 2014–15, rising from \$96 million to \$283 million.<sup>7</sup> With higher tobacco products sales and lower cigarette sales, the share of tobacco products revenue rose from about five percent of cigarette and tobacco revenue in fiscal year 1999–00 to ten percent by 2014–15.

### Tobacco Retailers

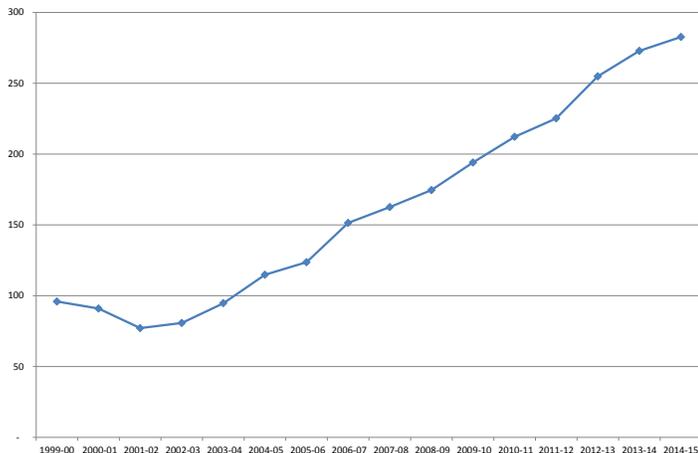
BOE data indicates that about 33,000 retail locations sell cigarettes or tobacco products. The data suggest that master permits (which could include more than one location) are concentrated among grocery stores, gas stations, liquor stores, and convenience stores, as shown in Chart 6. National data specify that about 70 percent of total nicotine delivery volume derives from convenience stores (with or without gas stations).<sup>8</sup>

<sup>6</sup> Campaign for Tobacco-Free Kids, [www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf](http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf)

<sup>7</sup> Board meeting agenda, November 17-18, 2015, Item P3. 1, Effects of Proposition 10 on Cigarette and Tobacco Products Consumption, Table 3, [www.boe.ca.gov/meetings/pdf/2015/111715\\_P3\\_1\\_Prop10\\_Backfill.pdf](http://www.boe.ca.gov/meetings/pdf/2015/111715_P3_1_Prop10_Backfill.pdf)

<sup>8</sup> Tobacco & Vapor Industry Marketplace Trends & Insights, [www.natoshow.com/wp-content/uploads/2015/07/NATO-2016-Trends-Presentation-FINAL.pdf](http://www.natoshow.com/wp-content/uploads/2015/07/NATO-2016-Trends-Presentation-FINAL.pdf)

**Chart 5**  
**Wholesale Sales of Tobacco Products (\$ Millions)**



The markets for cigarettes and tobacco products are complex and dynamic, with diverse ramifications for households, businesses, and governments.

**Contact Us**

Please contact us if you have questions or comments.

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**Online Resources**

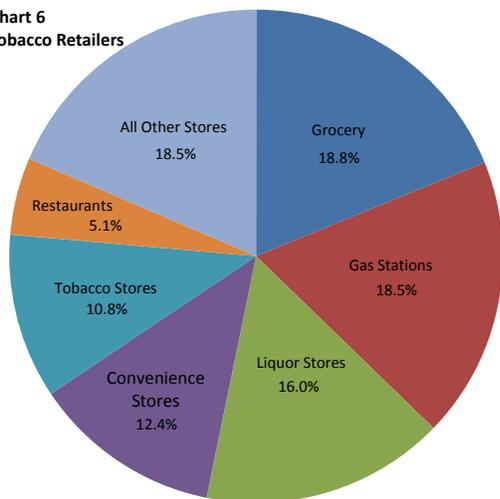
For more information about topics covered in this publication and previous issues, please visit any of the websites listed below.

U.S. Bureau of Labor Statistics  
[www.bls.gov](http://www.bls.gov)

U.S. Census Bureau  
[www.census.gov](http://www.census.gov)

U.S. Centers for Disease Control and Prevention  
[www.cdc.gov/tobacco/data\\_statistics/fact\\_sheets/economics/econ\\_facts/](http://www.cdc.gov/tobacco/data_statistics/fact_sheets/economics/econ_facts/)

**Chart 6**  
**California Tobacco Retailers**



**Conclusion**

In summary,

- Long-term trends indicate that smoking prevalence rates and cigarette sales are declining.
- Cigarette smoking prevalence rates usually decrease as education and income increased.
- Rural counties generally have higher smoking prevalence rates than urban counties.
- California cigarette prices including all taxes are slightly above the U.S. average.
- Historically, California cigarette sales fell when cigarette taxes increased. However, despite the declines in sales, cigarette revenues increased because of the higher tax rates.
- Most cigarettes are sold at convenience stores and gas stations.
- In contrast to cigarettes, sales of other tobacco products have generally increased for more than ten years.