

Memo: Estimating the fiscal impact of banning all flavored tobacco products in Vermont

The Vermont Legislature is considering a ban on all flavored tobacco products, including not just flavored e-vapor products, but also a significant portion of all traditional tobacco products such as menthol cigarettes, flavored smokeless tobacco, cigars, and pipe tobacco.

In 2019, Massachusetts became the first state to enact a ban of this type and the policy became effective June 2020. With a full twelve months of tax data now available from the Massachusetts Department of Revenue, Vermont can now utilize comparable data to anticipate how this policy would impact Vermont revenue collections.

The calculation below takes Massachusetts' tax-paid sales loss from the first twelve months the ban has been in place and applies the reductions to Vermont's FY2022 tax revenue.

Importantly, an adjustment has been made to account for the fact that Vermont consumers purchase a smaller proportion of menthol cigarettes than consumers in Massachusetts (18.1% of total cigarette volume is menthol in Vermont vs. 31.3% in Massachusetts pre-ban).

This estimating method indicates that \$15 million in excise and sales taxes would be lost if Vermont enacted this policy.

Information on data sources:

Orzechowski & Walker, *The Tax Burden on Tobacco*: For over 70 editions, this annual compendium on tobacco revenue and industry statistics has served as the definitive source on tobacco tax information for industry members and government leaders. The figures below are forthcoming from the 2022 edition. Monthly data from Massachusetts has been collected from the Massachusetts Department of Revenue and reported by Orzechowski & Walker for inclusion here.

MSAi: For over 15 years, Management Science Associates Inc. has collected and provided Altria Client Services, LLC and other industry members with comprehensive data on retail sales volumes and other market information on tobacco products across the United States.

Vermont Estimated Flavor Ban Revenue Impact

		Current Tax Revenues			Source
		Excise	Sales	Total	
(1)	Cigarettes	\$58,075,767	\$10,435,000	\$68,510,767	Orzechowski & Walker (O&W), <i>Tax Burden on Tobacco</i>
(2)	OTP & E-vapor	\$19,220,733	\$1,945,225	\$21,165,958	O&W; OTP Sales tax revenues: (1) * (12)
(3)	<i>Total Tobacco & E-vapor</i>	<i>\$77,296,500</i>	<i>\$12,380,225</i>	<i>\$89,676,725</i>	
(4)	Vermont Menthol Share	18.1%			MSAi market data FY2022 (most recent Fiscal Year)
(5)	Massachusetts Menthol Share (pre-flavor ban)	31.3%			MSAi market data FY2020 (pre-flavor ban)
(6)	Impact Scalar (relative to MA menthol share)	0.58			Calculation: (4) / (5)
(7)	Decline in Cigarette Sales Following MA Flavor Ban	-23.9%			O&W monthly Data
(8)	Vermont Estimated Cigarette Sales Losses (%)	-13.8%			Calculation: (6) * (7)
(9)	Decline in OTP Sales Following MA Flavor Ban	-27.4%			O&W monthly Data
(10)	Vermont Estimated OTP & E-vapor Sales Losses (%)	-27.4%			MA decline used as proxy due to limitations of OTP data
		Tax Revenues After Flavor Ban			
		Excise	Sales	Total	
(11)	Cigarettes	\$50,075,684	\$8,997,552	\$59,073,236	Calculation: (1) * (8)
(12)	OTP & E-vapor	\$13,946,917	\$1,411,491	\$15,358,408	Calculation: (2) * (10)
(13)	<i>Total Tobacco & E-vapor</i>	<i>\$64,022,601</i>	<i>\$10,409,044</i>	<i>\$74,431,644</i>	Calculation: (13) + (14)
		Change in Tax Revenues After Flavor Ban			
		Excise	Sales	Total	
(14)	Cigarettes	-\$8,000,083	-\$1,437,448	-\$9,437,531	Calculation: (11) - (1)
(15)	OTP & E-vapor	-\$5,273,816	-\$533,734	-\$5,807,550	Calculation: (12) - (2)
(16)	<i>Total Tobacco & E-vapor</i>	<i>-\$13,273,899</i>	<i>-\$1,971,182</i>	<i>-\$15,245,081</i>	Calculation: (13) - (3)