



TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

Are States Betting on Sins? The Murky Future of State Taxation

Federation of Tax Administrators
Revenue Estimation Conference

September 24, 2019

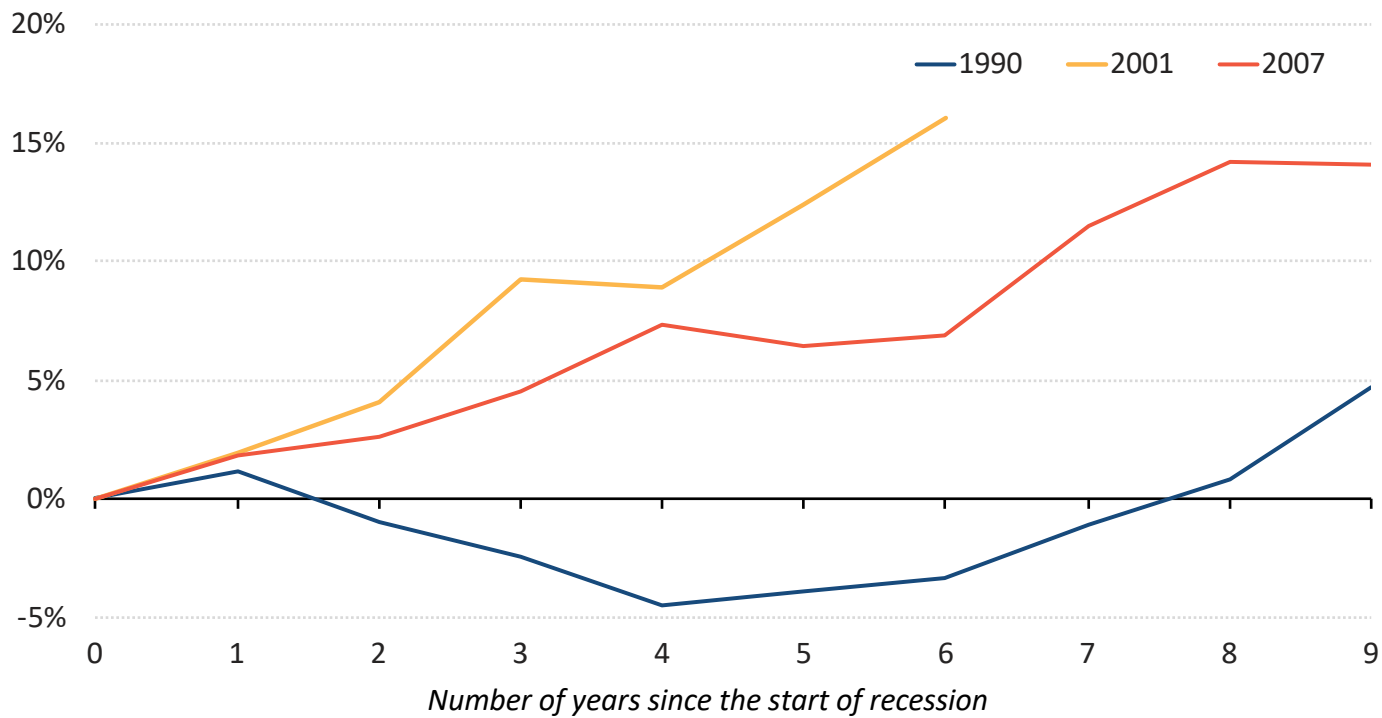
Lucy Dadayan

Looking *back* to look forward: Traditional “sins”

- **Alcohol** (whiskey) tax: first enacted at the federal level in 1791 to pay off national debt incurred during the Revolutionary War
- **Tobacco** tax: first introduced at the federal level in 1862 as a revenue measure during the Civil War
- **Gambling** has a long history in the United States, going back to colonial times. However, it was not until the early 20th century that states started legalizing gambling, mostly in response to the Great Depression as a form of economic stimulus
 - Kentucky was the first state to formally legalize *parimutuel betting* in 1906
 - Nevada was the first state to legalize operations of *commercial casinos* in 1931
 - New Hampshire was the first state to legalize modern-day *lottery* operations in 1964

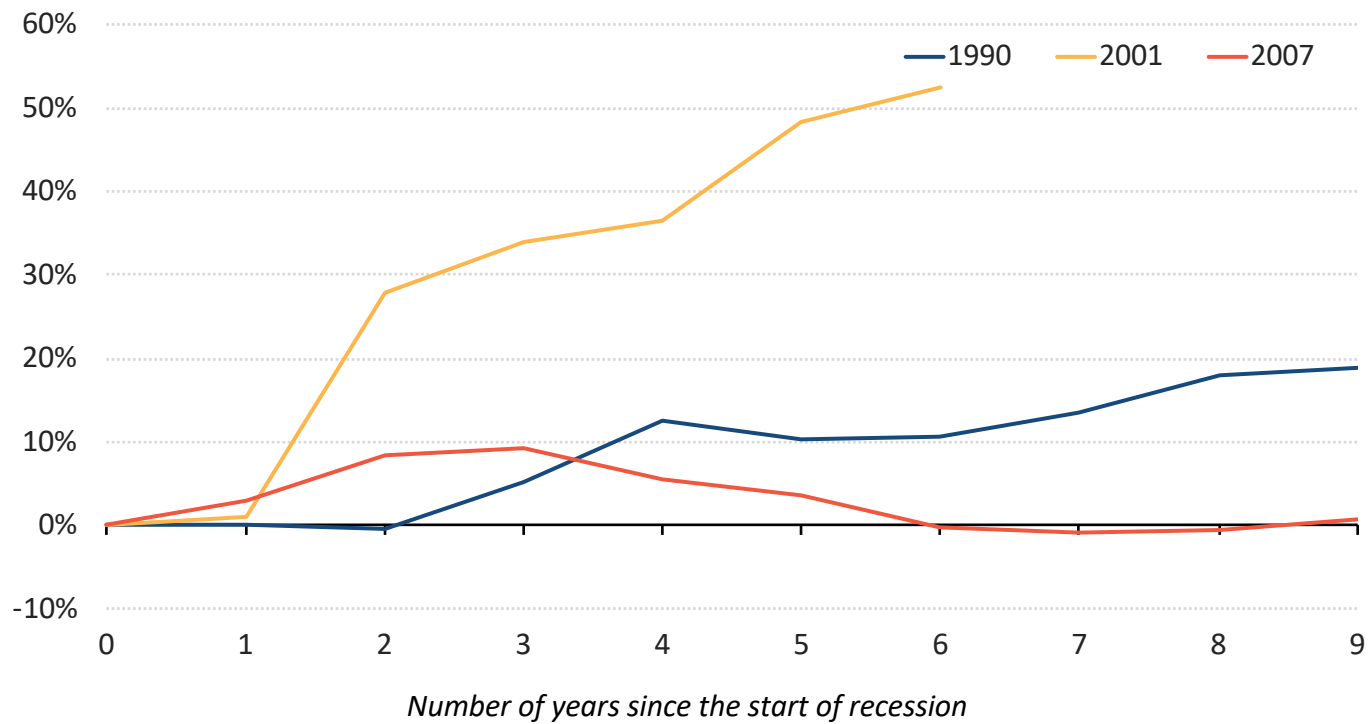
Steady growth in alcohol revenues since Great Recession

Cumulative percent change in inflation-adjusted alcohol taxes and liquor store revenues



Downward trends in state tobacco tax revenues

Cumulative percent change in inflation-adjusted state tobacco taxes



Why do states legalize and expand gambling?

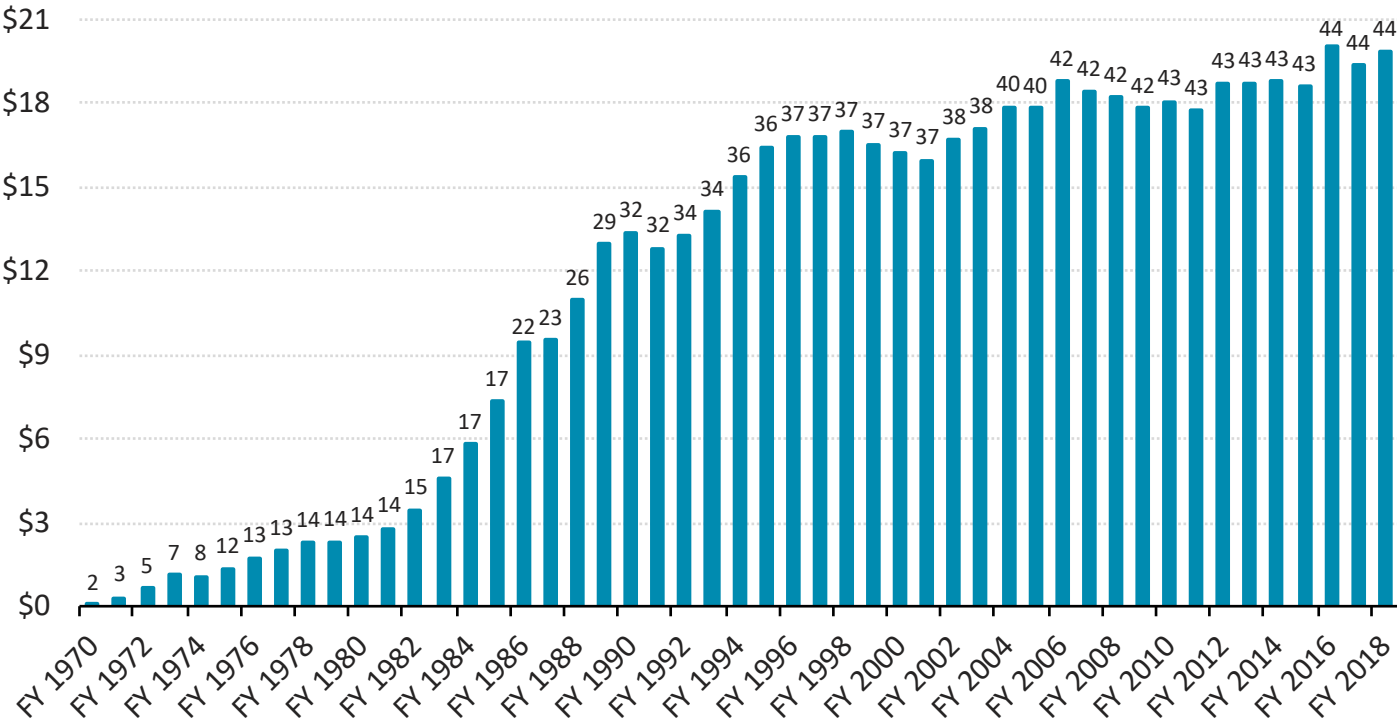
- Raise revenue in response to poor state fiscal conditions
- Stimulate economic development
- Counteract interstate competition for gambling revenue
- Attract tourism & keep gambling residents & tax dollars in-state
- Alignment of political interests in support of gambling

\$579 billion

States raised \$579 billion in revenues in real terms
in the 55-year history of
lottery operations

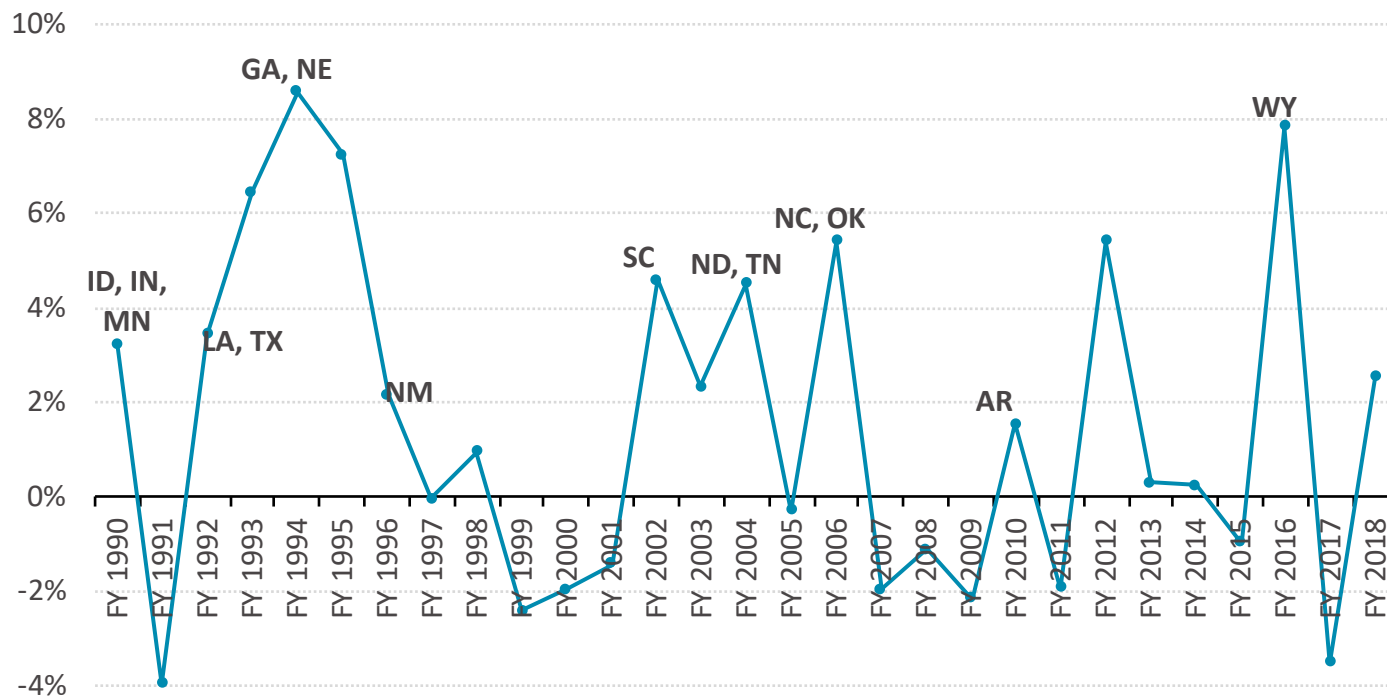
Not much growth in lottery revenues despite expansion

Real lottery revenues (\$ billions)



Growth in lottery revenues is often driven by expansion

Year-over-year real percent change, FYs 1990-2018



\$183 billion

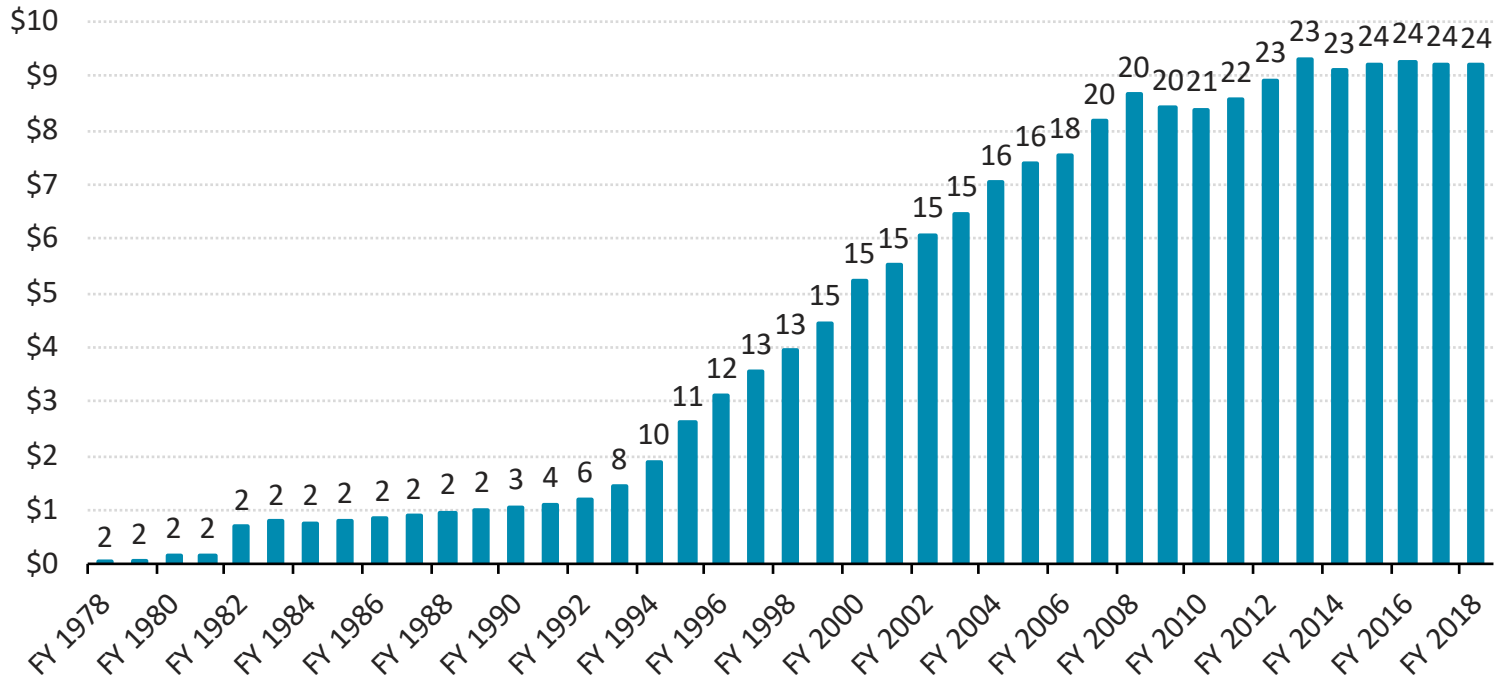
States raised over \$183 billion in revenues in real terms

in the last 40 years from casinos and racinos

Not much growth in casino/racino revenues despite expansion

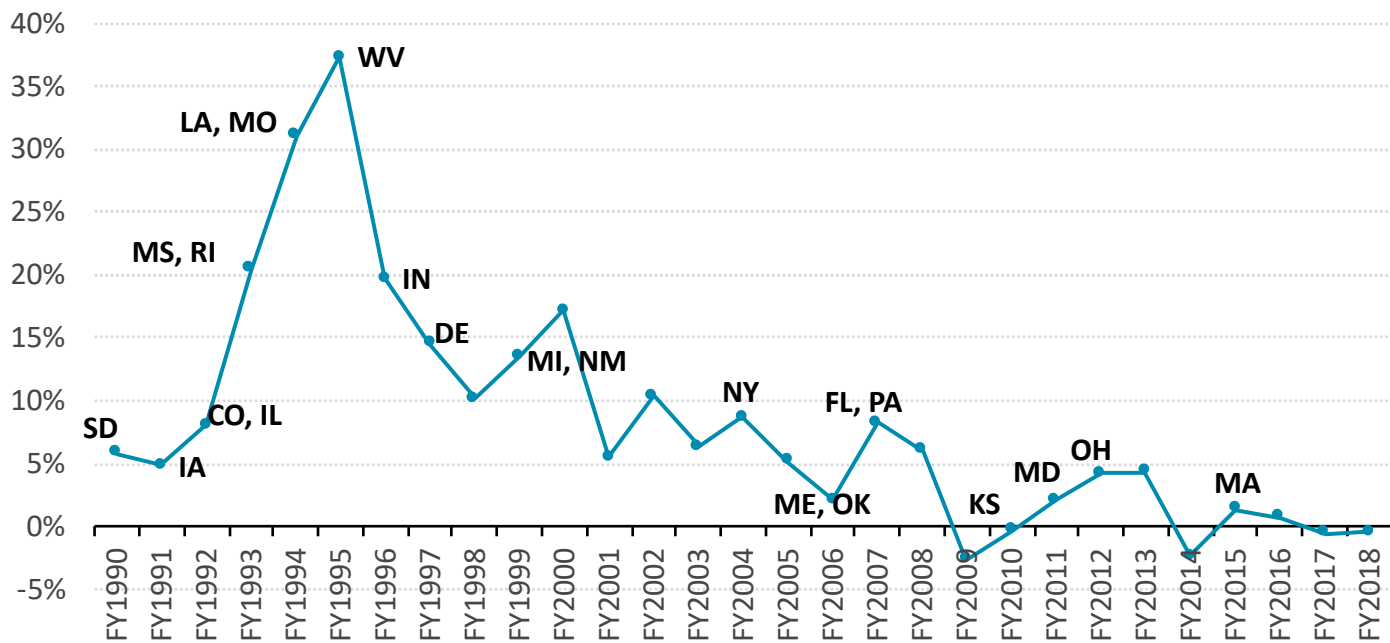


Real casino/racino revenues (\$ billions)



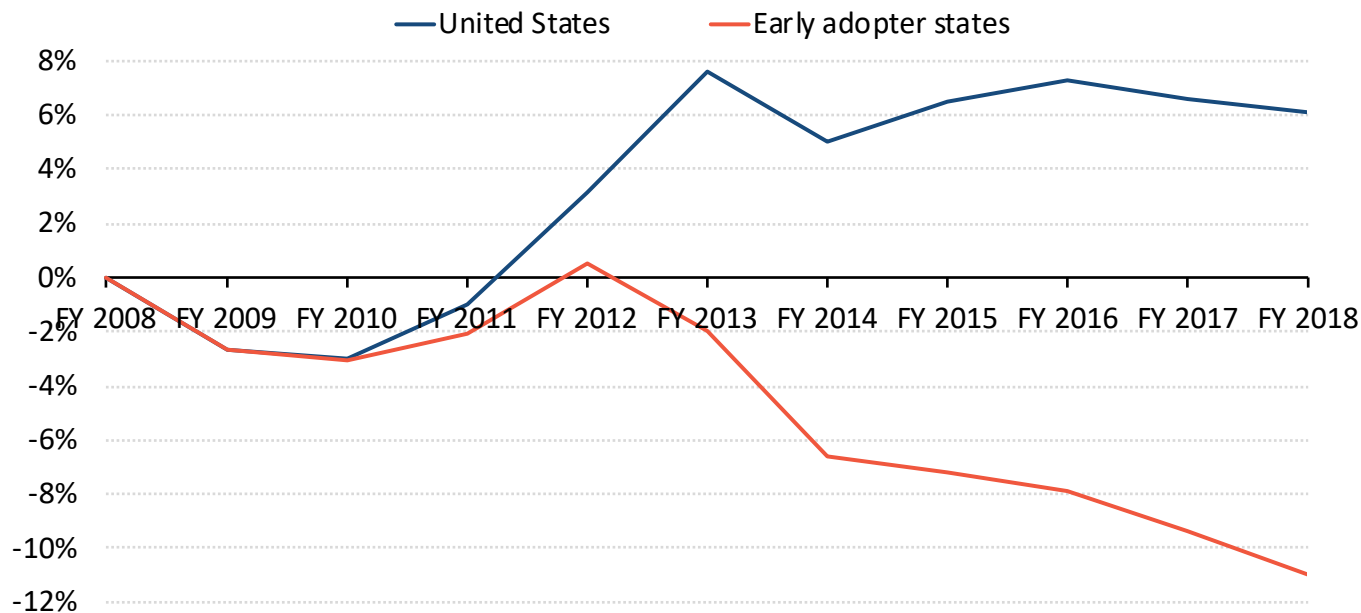
Not much growth in casino/racino revenues either

Year-over-year real percent change, FYs 1990-2018



Steep declines in casino/racino tax and fee revenues in early adopter states

Cumulative percent change in inflation-adjusted casino/racino tax & fee revenues



Notes: Four states - Kansas, Maryland, Massachusetts, and Ohio - are identified as late adopter states since they all started casino/racino operations after FY 2008.

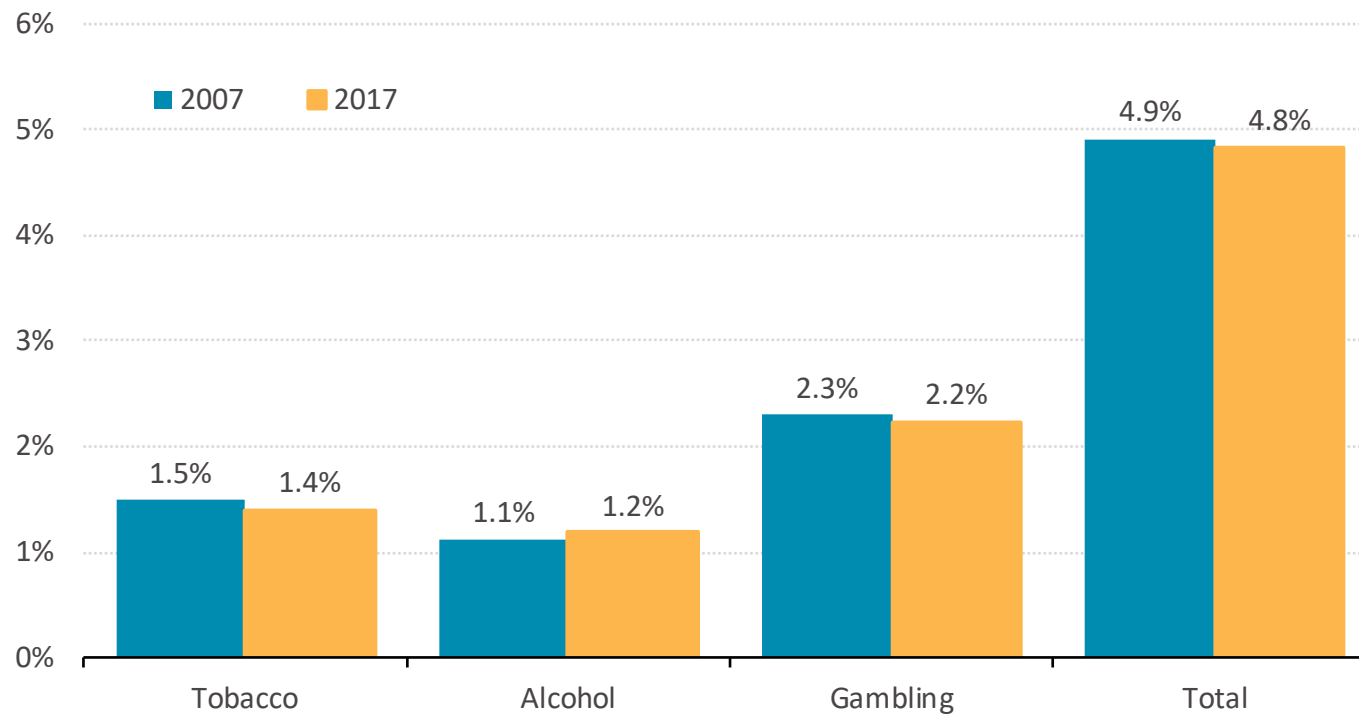
Recap: Gambling not a state budget bonanza

- Gambling is **NOT** recession-proof
- Gambling expansion brings in more revenue, until a saturation point is reached
- Some new revenue represents a shift, rather than net growth
- Future growth in gambling revenue will not keep pace with tax revenue, or spending
 - If gambling revenue is intended to support part of the overall budget, gaps may emerge in future years
- Gambling is a slow-growing revenue source & not a solution in the never-ending quest to balance the budget

Sin tax revenues represent small share of state budgets



Sin tax revenues as a share of state general own-source revenues, FY 2017



Looking back to look *forward*: New and emerging “sins”



- **Marijuana** (whiskey) tax
- **E-cigarette** tax
- **Soda** tax

Marijuana legalization and taxation

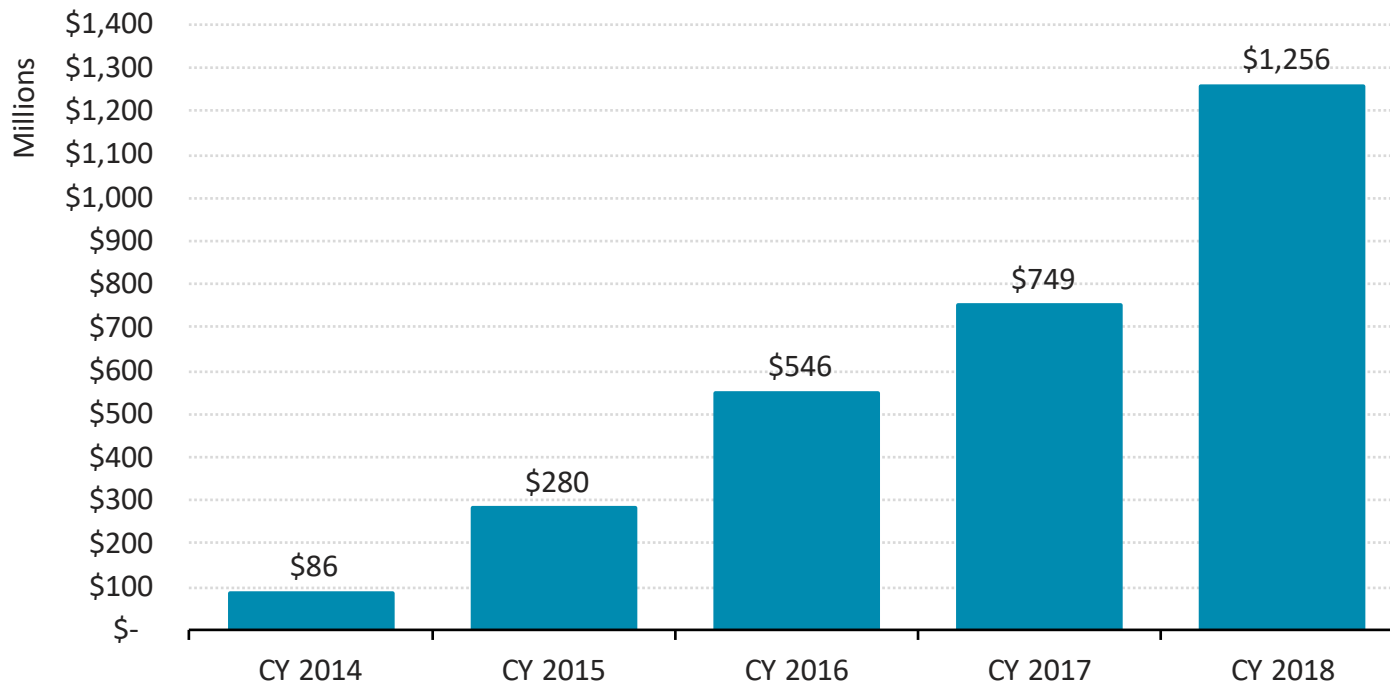
State	Retail excise tax	Wholesale/cultivation tax	Weight based tax	State sales tax	Local excise tax	Local sales tax
Alaska			Mature bud/flower: \$50 per ounce Immature bud/flower: \$25 per ounce Trim: \$15 per ounce Clones: \$1 per clone	N/A	0%–5%	0%–7.5%
California	15%		Flowers: \$9.25 per dry-weight ounce Leaves: \$2.75 per dry-weight ounce Fresh cannabis plant: \$1.29 per ounce	7.25%	0%–20%	0%–2.5%
Colorado	15%	15%		no		0%–6.5%
Massachusetts	10.75%			6.25%	0%–3%	N/A
Nevada	10%	15%		6.85%		0%–1.25%
Oregon	17%			N/A	0%–3%	N/A
Washington	37%			6.50%		0.5%–3.1%

\$3 billion

States raised about \$3 billion in revenues in real terms
in 5 years (2014-2018) from
marijuana

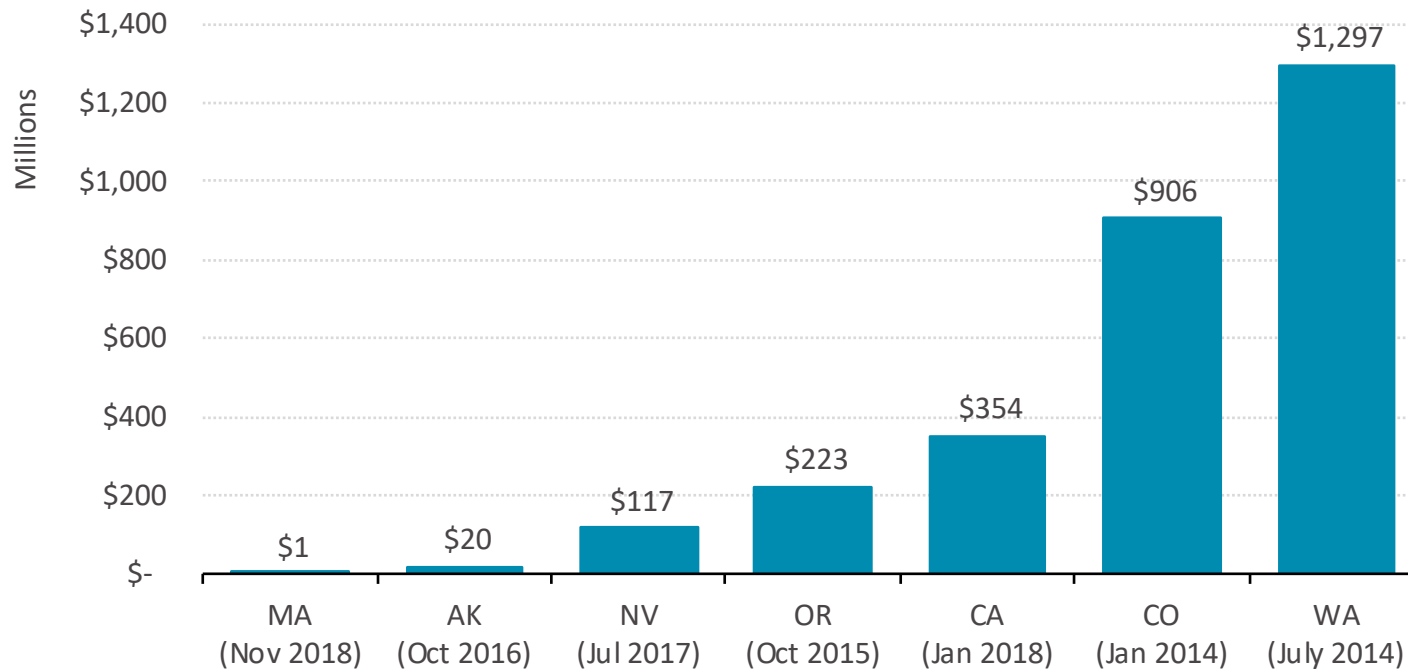
State tax revenues from recreational marijuana reached nearly \$1.3 billion in calendar year 2018

Marijuana state tax revenues, inception through end of calendar year 2018



Marijuana state tax revenues

Marijuana state tax revenues, inception through end of calendar year 2018



Notes: Local government tax revenues and license/application fees are excluded. For Nevada, general sales tax revenues are excluded. Tax revenues for Washington include medical marijuana as well.

Recap: Don't get "high" with marijuana

- Marijuana legalization and taxation is complicated and is evolving as states are gaining more experience and going through the steep learning curve
- Marijuana in most states is taxed in an *ad valorem* manner, which normally has “automatic” growth potential, as prices rise (BUT marijuana prices may fall!)
- States should forecast marijuana tax revenues with caution
 - Increased state competition
 - Every state has a different market and different economic, demographic, social, and cultural factors that will affect sales
- As more states legalize and tax marijuana
 - Tourism demand for marijuana will decline; in-state consumption would likely grow
 - Wholesale prices would likely decline, which may lead to higher rates of tax evasion, particularly if states end up with large discrepancies in marijuana tax rates

E-cigarettes: 12 states already tax e-cigarettes, 7 more states will tax soon

State	Effective date	Tax rate
California	April 2017	59.27% of wholesale
Connecticut	October 2019	10% of wholesale; \$0.40 per system cartridge
Delaware	January 2018	\$0.05/ml
Illinois	July 2019	15% of wholesale
Kansas	January 2017	\$0.05/ml
Louisiana	August 2015	\$0.05/ml
Maine	January 2020	43% of wholesale
Minnesota	October 2012	95% of wholesale
Nevada	January 2020	30% of wholesale
New Jersey	September 2018	\$0.10/ml
New Mexico	July 2019	12.5% of wholesale; \$0.50 per system cartridge
New York	December 2019	20% of wholesale
North Carolina	June 2015	\$0.05/ml
Ohio	October 2019	\$0.10/ml
Pennsylvania	October 2016	40% of wholesale
Vermont	July 2019	92% of wholesale
Washington	October 2019	\$0.09/ml on liquid; \$0.27/ml on e-juice
West Virginia	July 2016	\$0.075/ml
Wisconsin	October 2019	\$0.05/ml

E-cigarettes: Some local governments also tax e-cigarettes

Localities	Effective date	Tax rate
District of Columbia	2015	97% of wholesale
Juneau Borough, AK	2015	45% of wholesale
Mat-Su Borough, AK	2015	55% of wholesale
NW Arctic Borough, AK	2015	45% of wholesale
Petersburgh, AK	2015	45% of wholesale
Chicago, IL	2015	\$1.50/container + \$1.40/ml
Cook County, IL	2015	\$0.20/ml
Montgomery County, MD	2015	30% of wholesale

Sugar-sweetened beverage taxes

Localities	Legalization date	Effective date	Tax rate
Albany, CA	November 2016	April 2016	1 cent (\$0.01) per ounce
Berkeley, CA	November 2014	January 2015	1 cent (\$0.01) per ounce
Oakland, CA	November 2016	July 2017	1 cent (\$0.01) per ounce
San Francisco, CA	November 2016	January 2018	1 cent (\$0.01) per ounce
Boulder, CO	November 2016	July 2017	2 cents (\$0.02) per ounce
Philadelphia, PA	June 2016	January 2017	1.5 cents (\$0.015) per ounce
Seattle, WA	June 2017	January 2018	1.75 cents (\$0.0175) per ounce

Bottom line

- Revenues from sin taxes
 - Are volatile
 - Can deteriorate or decrease over time
 - Are relatively small. It will not fund your education budget. (So don't tell voters it will!)
- However, sin tax dollars can and do help the state, and should be dedicated for covering the externalities associated with the “sins”

Questions you may want to consider

- What are the primary public and fiscal *policy* goals for taxation of sins?
- How do other states tax (marijuana, soda, e-cigarettes)? What are the pros and cons of each approach?
- How much revenue do other states raise from each type of sin tax?
- How is the sin tax revenue spent?
- What can we learn from:
 - History of sin taxes
 - From other states (or even other countries)
 - From similar sin goods and products

Thank you!

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For more on state taxes, visit:

<https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-tax-and-economic-review>