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Impact of a Ban of Flavored Vapor Products on Virginia's Tax Revenue

The Commonwealth of Virginia is considering a proposal to effectively ban the sale of vapor products in the jurisdiction. Such a ban on virtually all vapor products sales in the Old Dominion State will not only result in the closure of approximately 138 small businesses spread throughout Virginia,[1] but will also significantly impact state revenues through reduced collections of sales, income, and other business taxes. The tax losses that the Commonwealth will suffer are summarized in Table 1 below.

Table 1
Impact of Flavor Ban on Virginia's Revenue Sources

Tax Name	2023 Estimate	Lost Revenue from Ban	Reduced Projected Revenue	Percent Loss from Ban
Product Sales Tax	$16.6	$0.4	$17.0	2.6%
Indirect Sales Taxes	$7.0	-$5.7	$1.3	-81.8%
Sales Tax Subtotal	$23.6	-$5.3	$18.3	-22.4%
Property Taxes	$10.2	-$8.1	$2.1	-79.1%
Income Taxes	$2.4	-$2.0	$0.4	-81.8%
Corporate Taxes	$0.3	-$0.3	$0.1	-82.3%
Other Taxes	$1.7	-$1.4	$0.3	-81.8%
Business Taxes Subtotal	$14.7	-$11.7	$3.0	-79.9%
Total	$38.3	-$17.0	$21.3	-44.5%

$ in Millions

With vapor sales losses in the Commonwealth reaching over $3.9 billion,[2] there will be a substantial (399.4) percent (-$0.4 million) decline in state sales tax revenue collected from these products. Added to this revenue loss would be a decrease of over $5.7 million in state sales taxes as a result of reduced spending on the part of businesses and employees who lose their jobs due to the ban. This means that the total sales tax loss to the state would be nearly $5.3 million.[3]

Sizable additional revenue losses will come from declines in taxes collected from businesses, including the 138 specialty vape shops currently operating in the state. An expected (399.4) percent reduction in sales translates to a decline of $11.7 million in other business tax revenue, with the bulk of the losses coming from a drop in property and income taxes at the state level.[4]

Table 2
Total Economic Impact of De Facto Ban in The Commonwealth of Virginia

	Jobs (lost)	Wages (lost)	Consumption Tax Revenue (lost)	Total State and Local Tax Revenue (lost)	Economic Output (lost)
Estimated VA Vapor Metrics	1,980.0	$89.2	$16.6	$117.0	$276.4
Losses from DeFacto Ban	-1,630.0	-$70.5	$0.4	-$48.4	-$226.0
% Change Following State Ban	-82.3%	-79.1%	2.6%	-41.4%	-81.8%

$ in Millions

The overall fiscal impact from a flavor ban (including supplier and induced impacts) would be a reduction of nearly $48.4 million in lost state and local tax revenue, within a market sector already reeling from the effects of federal regulations.[5]

1 By banning the primary product sold by small business vape stores, most or all of those businesses will be forced to close.
2 This $3.9 billion million loss represents a net change in sales, accounting for shifts in consumer preferences from flavored to unflavored or menthol products. The model estimates that the majority of consumers will not cease or reduce usage, but instead shift to purchasing from the black market, or outside the state's jurisdiction, such as out of state or other areas exempt from taxation such as military bases.
3 Note that this figure does not include any local sales taxes.
4 Based on a model developed for the VTA by John Dunham & Associates (JDA), 2023. Full methodology for the model is available from JDA on request.
5 It cannot be assumed that the economic impact from this proposal, including sales tax revenue losses, would be recaptured elsewhere in the Commonwealth of Virginia as consumers switch from vaping to either other forms of nicotine or to purchases of other products.

These tax revenue losses do not even consider the damage to businesses throughout the state, and to the lives of the families employed by them.

This analysis does not include increased costs for state unemployment claims or increased costs for agency enforcement of the many regulations required to ban vapor product sales. Neither does this analysis include other potential unintended consequences or yet unknown economic impacts resulting from the loss of about 1,630 jobs, paying Virginia residents $70.5 million in wages and benefits.

This argument assumes that all goods and services are perfectly interchangeable. While there are substitutes for flavored vapor products, if consumers wish to use them, they would already be purchasing them. By definition, anything other than a flavored vapor product would be considered an imperfect substitute by consumers. Imperfect substitutes have a lesser level of substitutability and therefore exhibit variable marginal rates of substitution by consumers. In this case, a consumer who prefers a flavored vapor product will not be willing to exchange that for another product and may either consume less overall or find another source for the good that they want. Consider colas. As the price of Coca-Cola rises, consumers could be expected to substitute Pepsi. However, consumers who prefer one brand over the other will not trade between them one-to-one. Rather, a consumer who prefers Coca-Cola may not be willing to exchange more Pepsi for less Coca-Cola.