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# California's Firearm Excise Tax is Almost Fully Passed on to Consumers

*Based on BFI Working Paper No. 2025-147, "California's Firearm Excise Tax is Almost Fully Passed on to Consumers," by Sara Drango, University of Chicago; Sarah Moshary, University of California, Berkeley; and Bradley Shapiro, University of Chicago*

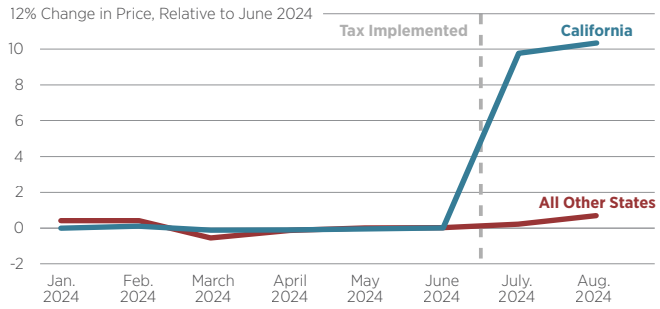
Following California's implementation of an 11% excise tax on firearms, prices increased by almost the full taxed amount, implying a near perfect passthrough rate in the market for firearms.

In July 2024, the California State Government made history as the first state to impose a tax on the sale of firearms and ammunition. The 11% tax, passed alongside a plethora of gun control regulations, is in addition to the Federal Government's preexisting 10-11% tax and seeks to generate revenue for violence prevention programs such as additional school security.

This novel policy presents obvious questions. Will this tax work? How effectively will this tax generate revenue? Can taxes of this sort serve as an effective means of gun control? These questions, among others, motivate this new research.

In economics and public policy, taxes are a versatile tool. The imposition of an additional cost on consumption works to both raise government revenue and discourage the consumption of a good. The degree to which a tax can accomplish these aims depends mainly on two factors: consumer responsiveness to increased prices, and the rate at which the tax is passed onto consumers. The first factor has been the subject of previous research by the same authors, which found that consumer demand for firearms is largely price insensitive. The second factor, however, has not been the subject of extensive research and is the focus of this paper.

**Figure 1** • Monthly Prices for Firearms, January 2024-August 2024




Note: This figure plots the changes in average firearm price both in California and the rest of the states. Following the implementation of the tax, it is clear to see that prices in California rose by over 10% while prices in the rest of the country remained relatively stable.

To gauge the impact of California's tax on gun prices (the **tax's passthrough**), the authors leverage the site GalleryofGuns.com

**tax passthrough:** the rate at which the additional costs of an incident tax are passed on to consumers through increased prices

to collect monthly gun price quotes from dealers nationwide. In total, the authors collect data on 48 products (covering 20 firearm models) from 2,267 locations in all 50 states. Prices are recorded before and after the tax implementation.

To control for any potential outside influences, the authors use a method called **differences-in-differences**. This method works by not just considering prices in California but by measuring the difference between prices inside and outside of California. This works to isolate the effects of the tax because other factors that might have impacted the price of guns nationwide would not factor into the difference. For example, if, post-tax, gunpowder becomes more expensive, the impact would be reflected not just in California's prices but in the firearm price nationwide and thus would not change the difference between the two.

**Research on the Elasticity of Firearm Demand**

In this previous paper, the authors examine the impacts of price changes on the demand for firearms. They find very low demand responses to price increases.

The authors' findings were clear. Following the implementation of the 11% tax, the prices of firearms in California increased by 10.405%. This comes in contrast to firearm prices in other states that remained relatively constant, only increasing by around 1%. This result implies a near perfect passthrough rate for the tax as consumers bear most of the increase.

This work holds important implications, especially as other state governments consider similar firearm taxes, as it characterizes both consumer demand for firearms and the impacts that taxes can bring.

**difference-in-differences:** a statistical method that estimates the causal effect of a treatment or shock by comparing changes over time between an affected group and a similar but unaffected control group

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