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FISCAL IMPACT REPORT

SPONSOR HTRC **DATE TYPED** 02-17-04 **HB** CS/86/aHFL#1

SHORT TITLE Tobacco Stamp Procedure Changes **SB** _____

ANALYST Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
\$577.2	\$571.4		Recurring	General Fund
\$164.6	\$162.9		Recurring	Credit Enhancement Acct. (GF)
\$14.0	\$13.9		Recurring	Recreation Fund
\$28.1	\$27.8		Recurring	Cigarette Fund
\$14.0	\$13.9		Recurring	UNM Cancer Center
\$21.0	\$20.8		Recurring	NMFA (UNM)
\$149.8	\$148.3		Recurring	NMFA (UNM Health Science)
\$63.0	\$62.4		Recurring	NMFA (DOH)

(Parenthesis () Indicate Revenue Decreases)

Relates to:

- HB 83, Tobacco Sales Delivery Act;
- HB 59 Increase Tobacco Products Tax
- SB 67, Nonparticipating Tobacco Manufacturers

SOURCES OF INFORMATION

LFC Files

Responses Received From:

- Taxation and Revenue Department (TRD)
- Human Services Department (HSD)
- Department of Health (DOH)

No Responses Received From:

- Health Policy Commission (HPC)
- Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HFL #1

The House Floor amendment strikes the \$400 thousand appropriation.

Synopsis of Original Bill

The House Taxation and Revenue Committee Substitute for House Bill 86 amends the Cigarette Tax Act to statute to modify Section 7-12-(2-13) NMSA 1978 to regulate who may purchase, obtain and apply tobacco stamps. CS/HB 86 would also require tax exempt stamps to be applied to tax exempt tobacco, remove two tobacco tax waivers, reduce the volume discount on tobacco tax stamps, provide for licensure for tobacco manufacturers and distributors, regulate the shipment of unstamped cigarettes within the state, require reporting and impose civil and criminal penalties for violation.

CS/HB 86 would appropriate \$400,000 to the Taxation and Revenue Department for implementation. Any unexpended and unencumbered balance remaining at the end of FY05 will be reverted back to the general fund.

The specific changes are as follows:

- Tax-exempt cigarettes--including sales by tribal entities--would be required to have stamps.
- Cigarettes sold on railroad passenger trains and cigarettes distributed by manufacturers to consumers as free samples would also require a stamp.
- Serial numbers would be required on stamps and stamps must now be applied to the pack of cigarettes within 10 days from receipt of the cigarettes.
- Tax stamp discounts are reduced from 4% to 1.0% on the first \$30,000 worth of stamps purchased in a month and from 3% to 0.8% on the next \$30,000. The discount for purchases over \$60,000 is reduced from 2% to 0.5%.
- Manufacturers and distributors may only sell to other licensed distributors or retailers. Distributors and retailers may only buy cigarettes from licensed manufacturers or distributors. Additional record keeping requirements are also imposed for distributors, manufacturers and retailers. Retailers do not have new requirements for sales to consumers.
- The shipment of unstamped cigarettes to someone other than a licensed distributor, without first filing a notice of shipment or possessing appropriate shipping documentation, would be subject to penalties.
- Civil penalties for violations of the act would be increased.
- New detailed reporting requirements are added for distributors and manufacturers.
- Criminal penalties are added for violations of the act.

FISCAL IMPLICATIONS

Fiscal impacts are due to the proposed reduction of the cigarette stamp discount rate. The current weighted discount rate is approximately 2.2%. This is the case because nearly 90% of stamp sales occur at the 2% discount rate. This proposal would cause the average discount rate to decrease to 0.55% and generate a little over \$1 million in additional cigarette tax revenue. This revenue would be distributed to each of the cigarette tax beneficiaries. In the event that the revenues distributed to the Credit Enhancement Account (CEA) at NMFA are not needed to meet current debt obligations, this revenue will be deposited in the General Fund. It is assumed that the General Fund will receive the CEA distribution for the next few years.

ADMINISTRATIVE IMPLICATIONS

TRD notes that additional personnel (two totaling \$80 thousand) and systems support will be required (\$400 thousand).

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