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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/17/07

SPONSOR Grubestic LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE INCREASE TOBACCO PRODUCTS TAX SB 888

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	1,541.0	1,525.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files  
Campaign for Tobacco Free Kids

Responses Received From  
Taxation and Revenue Department (TRD)  
Department of Health (DOH)

### SUMMARY

#### Synopsis of Bill

Senate Bill 888 increases the excise tax on tobacco products other than cigarettes from 25 percent to 40 percent.

There is no effective date so by default the effective date is June 15, 2007.

### FISCAL IMPLICATIONS

Raising the tax rate on tobacco products will increase revenue collected but not by the full amount at current consumption due to elasticity effects. The elasticity on tobacco products is estimated to be -1.18 meaning that there is a negative response to a price increase. Combined with the increase in the tax, the net effect is to lower consumption of tobacco products by 18 percent, according to the Taxation and Revenue Department (TRD). The Department of Health

(DOH) reports that this negative elasticity presented itself when the tax on cigarettes was raised: New Mexico’s increase in the cigarette tax from \$0.21 to \$0.91 per pack in 2003, which may have reduced cigarette smoking among youth, also carried the potential unintended consequence of increasing the use of smokeless and other tobacco products among youth. SB888 would decrease the price disparity between cigarettes and other tobacco products, thereby discouraging youth and adults from switching from cigarettes to other tobacco products.

**Table 1: Fiscal Impact with Elasticity Effect**

	<u>2008</u>	<u>2009</u>
Base	\$19,454	\$19,259
Rate @ 25%	25%	25%
Tobacco Products Tax	\$4,863	\$4,815
Snuff is 85% of the Revenue	\$16,535	\$16,370
Average Price Per Can	2.50	2.50
Cans	6,614	6,548
Units After Elasticity Effect	5,443	5,389
New Base	\$13,609	\$13,473
<b>Tax @ 40%</b>	<b>\$5,443</b>	<b>\$5,389</b>
Cigars & Other	\$2,918	\$2,889
Average Price per Unit	\$3.50	\$3.50
Units	834	825
Units After Elasticity Effect	686	679
New Base	2,402	2,378
<b>Tax @ 40%</b>	<b>\$961</b>	<b>\$951</b>
<b>General Fund</b>	<b>\$6,404</b>	<b>\$6,340</b>
<b>New Revenue to General Fund</b>	<b>\$1,541</b>	<b>\$1,525</b>

Source: TRD

**SIGNIFICANT ISSUES**

Of the states that levy a tobacco tax based on value, the average tax 31 percent. The average for the states near NM is 41 percent. Table 2, compiled by Campaign for Tobacco-Free Kids shows all of the tax rates by type of non-cigarette tobacco.

**Table 2: Sate Tobacco Tax Rates**

State	Smokeless & Chewing		Smoking Tobacco	
	Tobacco Tax	Cigar Tax	Tax	Snuff Tax
Alabama	1.5 cents/ounce	4.0 to 40.5 cents/10 cigars	4.0-6.0 cents/ounce	1.0-12.0 cents/ounce
Alaska	75% wholesale price	75% wholesale price	75% wholesale price	75% wholesale price
Arizona†	22.25 cents/ounce	20.25 to 218 cents/10 cigars	22.25 cents/ounce	22.25 cents/ounce
Arkansas	32% manufacturers price	32% manufacturers price	32% manufacturers price	32% manufacturers price
California*	54.89% wholesale price	54.89% wholesale price	54.89% wholesale price	54.89% wholesale price
Colorado	40% manufacturers price	40% manufacturers price	40% manufacturers price	40% manufacturers price
Connecticut	20% wholesale price	20% wholesale price	20% wholesale price	40 cents/ounce
Delaware	15% wholesale price	15% wholesale price	15% wholesale price	15% wholesale price
DC	12% retail price	12% but not on \$2+ cigars	12% but not pipe tobacco	12% retail price
Florida	25% wholesale price	None	25% wholesale price	25% wholesale price
Georgia	10% wholesale price	2.5 cents/10 cigars; 23% wholesale	10% wholesale price	10% wholesale price
Hawaii	40% wholesale price	40% wholesale price	40% wholesale price	40% wholesale price
Idaho	40% wholesale price	40% wholesale price	40% wholesale price	40% wholesale price
Illinois	18% wholesale price	18% wholesale price	18% wholesale price	18% wholesale price
Indiana	18% wholesale price	18% wholesale price	18% wholesale price	18% wholesale price
Iowa	22% wholesale price	36 cents/cigar	22% wholesale price	22% wholesale price
Kansas	10% manufacturers price	10% manufacturers price	10% manufactures price	10% manufacturers price
Kentucky	7.5% wholesale price	7.5% wholesale price	7.5% wholesale price	9.5 cents/unit†
Louisiana	20% manufacturers price	8%-20% manufacturers price	33% manufacturers price	20% manufacturers price
Maine	78% wholesale price	20% wholesale price	20% wholesale price	78% wholesale price
Maryland	15% wholesale price	15% wholesale price	15% wholesale price	15% wholesale price
Massachusetts	90% wholesale price	30% wholesale price	30% wholesale price	90% wholesale price
Michigan	32% wholesale price	32% wholesale price	32% wholesale price	32% wholesale price
Minnesota	70% wholesale price	70% wholesale price	70% wholesale price	70% wholesale price
Mississippi	15% manufacturers price	15% manufacturers price	15% manufacturers price	15% manufacturers price
Missouri	10% manufacturers price	10% manufacturers price	10% manufacturers price	10% manufacturers price
Montana	50% wholesale price	50% wholesale price	50% wholesale price	85 cents/ounce
Nebraska	20% wholesale price	20% wholesale price	20% wholesale price	20% wholesale price
Nevada	30% wholesale price	30% wholesale price	30% wholesale price	30% wholesale price
New Hampshire	19% wholesale price	None	19% wholesale price	19% wholesale price
New Jersey	30% manufacturers price	30% manufacturers price	30% manufacturers price	75 cents/ounce
<b>New Mexico</b>	<b>25% manufacturers price</b>	<b>25% manufacturers price</b>	<b>25% manufacturers price</b>	<b>25% manufacturers price</b>
New York	37% wholesale price	37% wholesale price	37% wholesale price	37% wholesale price
North Carolina	3% wholesale price	3% wholesale price	3% wholesale price	3% wholesale price
North Dakota	16 cents/ounce	28% wholesale price	28% wholesale price	60 cents/ounce
Ohio	17% wholesale price	17% wholesale price	17% wholesale price	17% wholesale price
Oklahoma	60% manufacturers price	36 to 120 cents/10 cigars	80% manufacturers price	60% manufacturers price
Oregon	65% wholesale price	65% wholesale price	65% wholesale price	65% wholesale price
Pennsylvania	None	None	None	None
Rhode Island	40% wholesale price	40% wholesale price	40% wholesale price	100 cents/ounce
South Carolina	5% manufacturers price	5% manufacturers price	5% manufacturers price	5% manufacturers price
South Dakota	35% wholesale price	35% wholesale price	35% wholesale price	35% wholesale price
Tennessee	6.6% wholesale price	6.6% wholesale price	6.6% wholesale price	6.6% wholesale price
Texas	40% manufacturers price	1 to 15 cents/10 cigars	40% manufacturers price	40% manufacturers price
Utah	35% manufacturers price	35% manufacturers price	35% manufacturers price	35% manufacturers price
Vermont*	41% manufacturers price	41% manufacturers price	41% manufacturers price	\$1.49/ounce
Virginia	10% manufacturers price	10% manufacturers price	10% manufacturers price	10% manufacturers price
Washington	75% taxable sales price	75% taxable sales price	75% taxable sales price	75% taxable sales price
West Virginia	7% wholesale price	7% wholesale price	7% wholesale price	7% wholesale price
Wisconsin	25% manufacturers price	25% manufacturers price	25% manufacturers price	25% manufacturers price
Wyoming	20% wholesale price	20% wholesale price	20% wholesale price	20% wholesale price
US Government	1.2 cents/ounce	\$1.828 to \$48.75/1000	7 cents/ounce	4 cents/ounce

†Effective 5/1/07. \*Snuff changed from 41% of manufactures price to \$1.49 per ounce on 7/1/06; will increase again to \$1.69 on 7/1/08. States in bold type raised their non-cigarette taxes in 2002; states with cigarette tax rate in bold raised their cigarette tax rates since 1/1/02. Manufactures Price is the price charged to wholesalers/distributors by the tobacco company that makes the product. Wholesale Price is either the price charged to retailers by the wholesalers/distributors or, in some states, it is the same as the Manufactures Price. Check state statutes for details. Current price charged by the major cigarette manufacturers to wholesalers is approximately \$2.28 per pack. Economic Resource Service, USDA, <http://www.ers.usda.gov/Briefing/tobacco/Data/table9.pdf>. New Jersey lowered its non-cigarette tax from 48% of wholesale price to 30% in 2002. Washington State lowered its non-cigarette tax from 129.42% to 75% in 2005.

Sources: Orzechowski & Walker, The Tax Burden on Tobacco, 2005; Federation of Tax Administrators, 2004, <http://www.taxadmin.org>; press reports; U.S. Bureau of Alcohol, Tobacco & Firearms, <http://www.atf.treas.gov/alcohol/info/faq/subpages/atftaxes.htm>. For more information on state tobacco taxes (and the benefits from increasing them), see the Campaign's website at <http://tobaccofreekids.org/reports/prices>.

Department of Health:

About 8.5% of New Mexico youth report using smokeless tobacco (2005 NM Youth Risk & Resiliency Survey) compared to 3.2% of adults (2003 NM Adult Tobacco Survey). Passage of SB888 may help to eliminate this disparity by preventing youth initiation of tobacco products and encouraging cessation, as youth are more price-sensitive than adults.

**PERFORMANCE IMPLICATIONS**

DOH reports that lowering tobacco use is one of their agency performance measures and SB888 will help them achieve their target.

**ADMINISTRATIVE IMPLICATIONS**

Without an effective date, the tax increase will go into effect on June 15, 2007. This will cause significant confusion for both the taxpayers and TRD. TRD: "A June 15 effective date would be difficult for the department to implement. The 15th is the middle of the reporting period and would cause systems and compliance issues. A July 1, 2007 is suggested to all the department time to adequately implement the provisions of this bill."

**ALTERNATIVES**

An effective date of July 1, 2007, would be an administratively sensible amendment.

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