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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 121

SHORT TITLE: Increase Tobacco Products Taxes

SPONSOR: Hickey

LAST UPDATE: 2/3/2026 **ORIGINAL DATE:** 2/3/2026 **ANALYST:** Gray

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Tobacco Product Tax	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Recurring	General Fund
Tobacco Product Tax	\$0.0	\$6,400.0	\$6,700.0	\$6,900.0	\$7,200.0	Recurring	Nicotine Use Prevention and Control Fund

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

Department of Health

Agency or Agencies That Were Asked for Analysis but did not Respond

Taxation and Revenue Department

SUMMARY

Synopsis of Senate Bill 121

Senate Bill 121 (SB121) raises the tax on tobacco products. The bill distributes the additional new revenue generated by the tax increase to the Nicotine Use Prevention and Control Fund.

SB121 Tax Changes

Product	Current Tax	Proposed Tax	Percent Increase
E-liquid	12.5 percent	40 percent	220%
Closed-System Cartridges	\$0.50 per cartridge	40 percent	varies by price
Other tobacco products	25 percent	40 percent	60%

Source: LFC Analysis

Distribution changes

SB121 changes the distribution of tobacco products tax revenues and creates the nicotine use prevention and control fund, administered by the Department of Health (DOH) and subject to appropriation by the Legislature, to provide funds to develop programs, educational materials, and social and traditional media advertising on nicotine use prevention and control for persons five to 25 years of age.

SB121 Tobacco Products Tax Revenue Distribution Changes

Revenue Type	Fund/Beneficiary	Current	Proposed
Tobacco Products Tax Revenues	General fund (7-1-6.11 (F))	100%	65%
	Nicotine Use Prevention and Control Fund	<i>new</i>	35%

Because the tobacco product tax is increased on certain tobacco products, the new distribution to the nicotine use prevention and control fund is not estimated to have a general fund impact.

Definition Changes

The bill changes the definition of a tobacco product, adding products that contain nicotine but that are not regulated by the United States food and drug administration. The bill also adds a definition of nicotine.

The effective date of this bill is July 1, 2026.

FISCAL IMPLICATIONS

Methods

This analysis applied an elasticity of -0.05 for tobacco products consumption, and no cross-tax elasticities were used. This analysis notes that the consumption decrease could be higher because age groups respond differently to tax and price increases due to variations between income elasticities. Additionally, this analysis does not consider the potential impact adding nicotine could have on the taxable base. This is an upside risk to the estimated revenue impact.

Tax revenue could be impacted depending on how retailers choose to pass-through taxes to consumers. The retailer's decision may vary considerably depending on market concentration and tax structures.

SIGNIFICANT ISSUES

Increasing the price of a good generally decreases the demand for that good. By increasing the tax on cigarettes and tobacco products, it is expected that consumption of those products will decrease. According to the federal Centers for Disease Control, tobacco remains the leading cause of preventable death and disability among New Mexicans. Nearly 2,630 people die from tobacco use annually in the state, according to the agency.

DOH notes that 12.2 percent of adults smoked cigarettes in 2023, 18.8 percent of New Mexico high school youth used e-cigarettes, and 22.2% of youth used at least one form of tobacco (e-cigarettes, cigarettes, cigars, spit tobacco or hookah). The agency also cites a 2024 report from the Surgeon General, which found:

The evidence is sufficient to conclude that increases in tobacco product prices will reduce

tobacco use to a greater extent among people of lower SES [socio-economic status] than they do for people of higher SES. Youth are especially price-sensitive, and price increases could help reduce tobacco use among people from all population groups at the age when they are most likely to begin smoking.

The agency continues:

Additionally, the World Health Organization shows that significantly increasing tobacco excise taxes and prices is the single most effective and cost-effective measure for reducing tobacco use. The health and economic benefits of prevention and cessation can significantly impact New Mexico's population, especially youth and people experiencing poverty (<https://www.who.int/activities/raising-taxes-on-tobacco>).

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB121 duplicates the Senate, Tax, Business, and Transportation Committee substitute for Senate Bill 20 from the 2025 legislative session.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy:** Revenue should be adequate to fund needed government services.
- **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity:** Different taxpayers should be treated fairly.
- **Simplicity:** Collection should be simple and easily understood.
- **Accountability:** Preferences should be easy to monitor and evaluate

BG/dw/ct