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## **FISCAL IMPACT REPORT**

SPONSOR: Feldman DATE TYPED: 2/19/03 HB \_\_\_\_\_

SHORT TITLE: Change Cigarette Tax and Revenue Distribution SB 336

ANALYST: Neel

### **APPROPRIATION**

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
	\$40,000.0			Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### **REVENUE**

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	\$41,508.0	\$41,645.0	Recurring	General Fund
	Neutral	See Narrative	Recurring	County and Municipality Recreation Fund
	Neutral		Recurring	County and Municipal Cig. Fund
	Neutral		Recurring	UNM Cancer Treatment Center
	Neutral		Recurring	NMFA

(Parenthesis ( ) Indicate Revenue Decreases)

**Duplicates:**

HB 488 Increase Cigarette Tax

**Relates to:**

HB 143 Cigarette Delivery Sales Act

HB 528 Increase Cigarette Tax

## SOURCES OF INFORMATION

LFC Files

### Responses Received From:

Department of Health (DOH)

Health Policy Commission (HPC)

Taxation and Revenue Department (TRD)

## SUMMARY

### Synopsis of Bill

Senate Bill 336 proposes to increase the rate of the cigarette excise tax from the current state tax of 21 cents-per-pack to 81 cents-per-pack. SB 336 also proposes to modify distributions of cigarette tax revenue in a manner that reduces the distribution percent, yet maintains the current level of revenue for the counties and municipalities Recreation Fund, County and Municipal Cigarette Tax Fund, UNM Cancer Treatment Center and New Mexico Finance Authority. The effective date of the increase in the cigarette tax is July 1, 2003 and the effective date of the change in distribution is August 1, 2003.

SB 336 also appropriates \$40.0 million in general fund for Medicaid services under Title 19 or 21 of the Social Security Act for FY04. Any unexpended or unencumbered balance remaining at the end of FY04 does **not** revert to the general fund.

The table below details the distribution percent changes included in SB 336:

Subsection	Entity affected by re-distribution of cigarette tax revenue	Current percentage distribution	SB 336 proposed distribution
A	County and Municipality Recreational Fund	.0475	.0147
B	County and Municipal Cigarette Tax Fund	.0950	.0295
C	UNM Cancer and Treatment Center	.0475	.0147
D	New Mexico Finance Authority	.07125	.0221

## FISCAL IMPLICATIONS

TRD estimates \$41,508.0 in revenue for FY04 and \$41,645.0 on a recurring basis for the general fund. The bill also appropriates \$40,000.0 in general fund for FY04.

While the percent distribution changes, the counties, municipalities, UNM Cancer Treatment Center and New Mexico Finance Authority be essentially "held harmless" and the revenue impact is neutral.

TRD notes the following methodology for estimating fiscal impact:

- (1) Proposed tax increases were converted to the equivalent percentage increase in price, assuming the average price of a pack of cigarettes in New Mexico is \$2.60 in FY 2004.
- (2) We assume the elasticity of demand for cigarettes in New Mexico at  $-0.7$ . This number equals the ratio of the percentage change in sales to the percentage change in price. In a survey of national studies, the U.S. Congressional Research Service found a range of estimates for this elasticity of  $-0.3$  to  $-0.5$ . A higher value in this estimate reflects the ready access of many smokers to state tax-exempt sales from tribal vendors.
- (3) Given the above assumptions, the proposed tax increases lead to a 24% increase in the average price of taxable cigarettes, resulting in a 17% decline in taxable sales of cigarettes in the state. Taxable sales have been declining for the last several years in response to sharp price increases. Without a tax increase, taxable sales should drop to 91.7 million packs in FY 2004.

## OTHER SUBSTANTIVE ISSUES

### National Smoking Statistics

- According to *Tobacco Facts*, one out of 5 people who dies in the US, dies because of smoking, approximately 430,000 people annually.
- Smoking is the number 1 preventable cause of premature death in the US.
- Smokers, on the average, live 7 years less than those who do not smoke.
- According to the Surgeon General, smoking causes heart disease, lung and esophageal cancer, chronic lung disease, and contributes to cancers of the bladder, pancreas and kidney.
- Men who smoke are 22 times more likely to die from lung cancer and 10 times more likely to die from bronchitis and emphysema.
- Second-hand smoke exposes non-smokers to carcinogenic elements in cigarette smoke.
- Over 90% of adults who smoke began smoking in adolescence.

### New Mexico Smoking Statistics

The Campaign for Tobacco-Free Kids, utilizing data from the US Centers for Disease Control and Prevention-2001 and 2002 data, note the following statistics for New Mexico:

- 36.2% (41,000) of NM High School students smoke cigarettes. Kids (under 18) in New Mexico who become new daily smokers each year are 5,200.
- National youth smoking rates have declined somewhat since 1997, but remain at historically high levels. According to the National Youth Tobacco Survey, 28.4% of all U.S. high school kids smoke.
- In New Mexico, 23.6% (293,000) of adults are smokers, which compare 23.3% of United States adults.
- 2,100 New Mexico adults will die each year from their own smoking. 44,000 kids

under 18 and currently alive in New Mexico will ultimately die prematurely from smoking.

Smoking-Caused Monetary Costs in New Mexico

Annual health care costs in New Mexico directly caused by smoking is \$360 million and the portion covered by State Medicaid was \$144 million. Residents' state & federal tax burden from smoking-caused government expenditures was \$507 per household. (Source: US Centers for Disease Control and Prevention-2001 and 2002 data).

As of January 2002 New Mexico ranked 38<sup>th</sup> in the amount of cigarette tax per pack. (Source: The Campaign for Tobacco-Free Kids).

Any legislation that motivates New Mexicans to quit or reduce smoking is in the best interest of New Mexicans health.

The redistribution of cigarette tax revenue as described in SB528 will likely negatively impact those entities who stand to lose revenue to fund the programs they administer.

University of New Mexico Hospital Use of Cigarette Tax Revenue

UNMH is considering a building project in the future. This will involve the university issuing low interest bonds to pay for the project, with revenues from the hospital used to service the debt. Revenue from the cigarette tax, in conjunction with revenue from low interest bonds, will be used in the building and operating of the structure.

**ADMINISTRATIVE IMPLICATIONS**

TRD notes the following administrative impact:

A substantial increase in the cigarette tax will increase the pressure to enforce this tax. Significant tax-evasion opportunities present themselves. At present, the Department does not have the personnel to ensure full compliance. Effective administration of this tax may be impossible without statutory changes that permit the state to collect the tax when cigarettes first enter the state. Such a system, employed in Arizona and other states, is the only effective means of limiting tax avoidance.

**OTHER IMPACTS AND ISSUES :**

A tax is said to be "regressive" if it takes a higher percentage of income from poor households than it does from richer households. The cigarette tax is certainly a regressive tax. According to the Joint Committee on Taxation, 68% of the burden associated with a federal cigarette tax increase of \$1.10 per pack would be borne by those with an income of less than \$50,000.

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