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FISCAL IMPACT REPORT

SPONSOR: McSorley DATE TYPED: 03/07/03 HB _____
 SHORT TITLE: Increase Cigarette & Tobacco Products Tax SB 717
 ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	\$47,290.0	\$51,400.0	Recurring	General Fund
	\$1,564.0	\$1,700.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to:

- SB 133, Tobacco Settlement Fund Appropriations
- SB 336, Change Cigarette Tax & Revenue Distribution
- SB 528, Increase Cigarette Tax
- SB 717, Increase Cigarette & Tobacco Products Tax
- SB 730, Temporary Tobacco Settlement Fund Transfer
- SB 835, Increase Cigarette Tax

SOURCES OF INFORMATION

LFC files

Responses Received From

Health Policy Commission (HPC)
 Department of Health (DOH)

SUMMARY

Synopsis of Bill

Senate Bill 717 increases the rate of taxation on the sale, distribution and consumption of cigarettes by .80/pack and tobacco products from 25 percent of the products value to 40 percent. The bill also reduces the distribution rates of cigarette tax revenues to the County and Municipal-

ity Recreational Fund, the County and Municipal Cigarette Tax Fund, UNM Cancer and Treatment Center, and the New Mexico Finance Authority. However the actual revenue distributed to the programs is held harmless based on the increases gross tax rate.

Subsection	Entity affected by re-distribution of cigarette tax revenue	Current percentage distribution	SB 717 proposed distribution
A	County and Municipality Recreational Fund	.0475	.0127
B	County and Municipal Cigarette Tax Fund	.0950	.0254
C	UNM Cancer and Treatment Center	.0475	.0127
D	New Mexico Finance Authority	.07125	.0190

FISCAL IMPLICATIONS

SB 717 would generate approximately \$48.9 million in general fund revenues in FY04 (11of 12 months) and \$53.1 million in subsequent years.

OTHER SUBSTANTIVE ISSUES

DOH has provided the following background information:

Following a cigarette tax increase, the anticipated response is that sales volumes will ultimately decrease due to economic disincentive. Other states have shown, however, that decreasing tobacco sales does not necessarily mean decreasing tax revenues. High cigarette excise taxes in California, Arizona, Massachusetts, Oregon, Michigan, and Canada have demonstrated a reduction in cigarette sales. However, despite reductions in cigarette sales, all of these states received increased cigarette tax revenues. In 1999, California increased its cigarette tax by fifty cents per pack, increasing the tax to 0.87 cents. State consumption declined by 18.9% but revenues increased by 90.7% resulting in \$555.4 million in new revenues. In 1997, Utah increased its cigarette tax twenty-five cents per pack, increasing the tax to 51.5 cents. State consumption declined by 25.7% but revenues increased by 84.2%, resulting in \$17.6 million in new revenues.

New Mexico currently has one of the lowest cigarette taxes in the country at 21-cents per pack, according to the Federation of Tax Administration (State Tax Rates and Structure: State Cigarette Tax Rate, October, 2002; www.taxadmin.org/rate/cigarette.html). Except for Colorado, all neighboring states have higher cigarette taxes than New Mexico, with Arizona at \$1.18 per pack, Utah at 69.5 cents per pack, Texas at 41 cents, and Colorado at 20 cents. Nineteen states and New York City raised their cigarette tax rates in 2002. The highest state cigarette excise tax is \$1.50 in the state of New York.

According to the World Health Organization, it is important to place equivalent taxes on cigarettes and non-cigarette tobacco products (e.g. pipe and rolling tobacco, snuff, oral tobacco, cigars, etc.) to avoid users simply substituting one form of tobacco addiction for another (Guidelines for Controlling and Monitoring the Tobacco Epidemic, 1998). The tax increase from 25%

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to 40% of product value proposed by SB 717 represents an important step in taxing other tobacco products.

There is evidence that New Mexico residents support the cigarette tax increase provision in SB 717. A poll commissioned in 2002 by New Mexicans Concerned About Tobacco (a statewide coalition that includes the American Cancer Society, American Heart Association, and the American Lung Association) found that 63% of New Mexico registered voters support a 60-cent increase in the state's cigarette excise tax. In this poll, voters were not asked about a 79-cent increase.

SN/prr