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FISCAL IMPACT REPORT

SPONSOR: Jennings DATE TYPED: 3/13/03 HB _____

SHORT TITLE: Increase Cigarette Tax SB 835

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(\$276.0)	(\$301.0)	Recurring	General Fund
	--	--	Recurring	County & Municipal Recreation Fund
	--	--	Recurring	County & Municipal Cigarette Fund
	--	--	Recurring	UNM Cancer Center
	\$11,980	\$13,069	Recurring	New Mexico Finance Authority
	\$402.0	\$439.0	Recurring	UNM Telehealth
	\$1,009.0	\$1,101.0	Recurring	UNM Health Sciences
	\$8,057.0	\$8,788.0	Recurring	Medicaid Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files

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

SUMMARY

Synopsis of Bill

Senate Bill 835 proposes to increase the cigarette tax by \$.30 per pack of 20 from \$0.21 to \$.51. Distribution of cigarette taxes to non-General Fund beneficiaries (except the New Mexico Finance Authority (NMFA)) is modified to maintain revenues at the FY 2004 projected levels. Two new distributions are added which go to the board of regents at UNM—one for 1.05% (center for telehealth) and one for 2.63% (research on emphysema and lung cancer) of the net receipts attributable to the cigarette tax. There is also a new distribution to the Supplemental Medicaid Fund for 21% of the net cigarette tax receipts. Finally, there is a new distribution to NMFA on behalf of the New Mexico Health Sciences Center for 31.23% of the net receipts.

NMFA can sell up to \$80 million of revenue bonds to add to and improve the UNM Health Sciences Center. The new cigarette tax distributions to NMFA are pledged to pay principal, interest and other expenses related to the bonds. Any balance remaining in this account, after bond obligations have been met, is appropriated on a monthly basis to the Supplemental Medicaid Fund. When all principal and other bond-related expenses have been paid, the new distribution going to the NMFA (31.23%) will be redirected to the Supplemental Medicaid Fund. The final section of the bill creates the Supplemental Medicaid Fund.

FISCAL IMPLICATIONS

TRD's Estimating method:

- (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 12% increase in the average price of taxable cigarettes, resulting in an 8.4% 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. Even without a tax increase, taxable sales should drop to 91.7 million packs in FY 2004.

ADMINISTRATIVE IMPLICATIONS

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. TRD recommends two additional FTE's.

SN/lis