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FISCAL IMPACT REPORT

SPONSOR Beam DATE TYPED 1/29/04 HB 59

SHORT TITLE Increase Tobacco Products Tax SB _____

ANALYST Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	2,300.0	2,300.0	Recurring	General Fund
	43.0	43.0	Recurring	General Fund (GRT)
	29.0	29.0	Recurring	Local Gov. (GRT)

(Parenthesis () Indicate Revenue Decreases)

Relates to
 HB 86, Tobacco Stamp Procedure Changes
 HB 220, Tobacco Settlement Revenue Appropriation
 SB 192, Smart Moves Smoking Cessation Program Funding
 HM 1, Promote Cigarette Taxation Parity

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Health Policy Commission (HPC)
 Department of Health (DOH)
 Human Services Department (HSD)

SUMMARY

Synopsis of Bill

House Bill 59 amends statute to increase the tobacco products tax from 25 percent of the value of the product to 40 percent. This tax is imposed on the first link of the supply chain entering New Mexico (wholesale level).

Significant Issues

The tobacco products tax—which is imposed as a percent of value at the wholesale level—has traditionally been imposed at a higher effective tax rate than the cigarette tax, which is imposed on a per unit basis. The current cigarette tax rate is roughly 25% of retail value. Depending on the assumptions used in regard to the amount of retail mark-up, and the base price on which that mark-up applies, the tobacco products tax rate could be set at between 40% and 47% to achieve a tax rate equivalent to 25% on retail.

FISCAL IMPLICATIONS

TRD notes the following assumptions in determining the fiscal impact.

- (1) The proposed tobacco products tax increase, although expressed as percentage of the value of sales, would likely lead to an equivalent percentage price increase.
- (2) We assume the elasticity of demand for tobacco products in New Mexico to be -0.4 . This is lower than the cigarette tax elasticity because tribal vendors are not permitted to sell tobacco products state tax-exempt.
- (3) Given the above assumptions, the proposed tax increases leads to a 15% increase in the average price of tobacco products, resulting in a 6% decline in taxable sales of tobacco products in the state.

OTHER SUBSTANTIVE ISSUES

The HPC makes the following points:

Since the Master Settlement Agreement (MSA) was signed in November 1998, the cigarette industry has been forced to raise prices to cover the costs associated with the settlement. The agreement between the attorneys general from 46 States and the major cigarette companies was intended primarily to reimburse States for expenses related to the treatment of smoking-related illnesses. Cigarette companies have boosted prices as a result of payments required by the settlement. Higher prices have curtailed consumption, although not as much as originally expected. The long-term decline in cigarette consumption due to non-economic factors continues as well. Domestic consumption was expected to slide by more than 2% in 2003. Fourteen states were expected to increase excise tax in 2003 ranging from \$.17 to \$1.50 in New Jersey. The consumption-weighted average State cigarette excise tax is 57.3 cents per pack of 20 cigarettes. (Source: Economic Research Service –US Department of Agriculture)

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. This includes correctional guards, visitors, other prisoners, instructors and possibly other children.
- 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.
- 13.8% (15,630) of NM High School student use spit tobacco.
- 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.

Tobacco-Free Kids Statistics (www.tobaccofreekids.org)

- Average state cigarette tax as 1/8/04 – 73.5 cents.
- Tobacco state average as 1/8/04 – 12.4 cents.
- Non-tobacco state average as 1/8/04 – 82.6 cents.
- Studies show that higher cigarette taxes are an effective ways to reduce smoking among both youth and adults. A 10 percent increase in the price of cigarettes will reduce youth smoking by about seven percent and overall cigarette consumption by three to five percent.

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 38th 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.

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