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## FISCAL IMPACT REPORT

SPONSOR Rawson DATE TYPED 2-7-04 HB \_\_\_\_\_

SHORT TITLE Tobacco Products Tax Rate Increase SB 384

ANALYST Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	1,500.0	Increasing	Recurring	General Fund (Tobacco Products Tax)
	30.0	Increasing	Recurring	General Fund (GRT)
	20.0	Increasing	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to:

- HB 83, Tobacco Sales Delivery Act;
- HB 59 Increase Tobacco Products Tax
- HB 86, Tobacco Stamp Procedure Changes
- HB 220, Tobacco Settlement Revenue Appropriation
- HM 1, Promote Cigarette Taxation Parity
- SB 67, Nonparticipating Tobacco Manufacturers
- SB 192, Smart Moves Smoking Cessation Program Funding

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

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

## SUMMARY

### Synopsis of Bill

Senate Bill 384 amends statute to increase the tobacco products tax from 25 percent of the value of the product to 35 percent.

### Significant Issues

DOH notes the following significant issues:

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.

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). New Mexico's current cigarette tax of ninety-one cents per pack ranks the State as having the 18<sup>th</sup> highest cigarette tax in the country according to the National Campaign for Tobacco Free Kids (<http://tobaccofreekids.org/research/factsheets/pdf/0148.pdf>). The tax increase from 25% to 35% of product value proposed by SB 384 represents an important step in taxing other tobacco products to more closely approximate the price being paid for cigarettes.

Keeping both cigarette and other tobacco products taxes at comparable rates can avoid some serious health problems, including an increase in the use of other tobacco products among youth. According to the 2001 Youth Risk and Resiliency Survey, 7.9% of New Mexico high school males reported having used smokeless tobacco products on one or more days during the past thirty days. The use of cigarettes in the past thirty days for all New Mexico high school students was 25%.

There is evidence that an increase in the tax for other tobacco products, such as chew or spit tobacco, is supported by two-thirds (67%) of registered New Mexico voters, according to a poll commissioned in August 2003 by New Mexicans Concerned About Tobacco (a statewide coalition that includes the American Cancer Society, American Heart Association and the American Lung Association).

## **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) The elasticity of demand for tobacco products is approximately  $-0.4$ .
- (3) The proposed tax increases leads to a 10% increase in the average price of tobacco products, resulting in a 4% decline in taxable sales of tobacco products in the state.

## **ADMINISTRATIVE IMPLICATIONS**

TRD notes increased administrative costs of 1 FTE or \$50 thousand.

SN/dm