F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 2/3/06
SPONSOR Lujan B **LAST UPDATED** 2/13/06 **HB** 673/aHFI#1

SHORT TITLE Taxation of "Moist Snuff" **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	**FY07**	**FY08**		
	310.0	307.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)
Department of Health (DH)

Responses Received From
Taxation and Revenue Department (TRD)
Department of Health (DH)

SUMMARY

Synopsis of Amendment

The House amended House Bill 673 stipulates that any can of moist snuff that weighs less than one ounce will be taxed as though it weighed one ounce. This amendment does not change the fiscal impact.

Synopsis of Original Bill

House Bill 673 changes the way "moist snuff," a tobacco product, is taxed. Currently, the product is taxed based on 25 percent of value. HB 673 would make the tax based on weight at $0.63 per ounce. Moist snuff is defined as any tobacco product of a moist fine-grain tobacco, whether cut, ground or powdered, prepared to be placed in the oral cavity of the user.

The effective date is July 1, 2006.

FISCAL IMPLICATIONS

According to TRD, HB 673 taxes from moist snuff are included in the Tobacco Products Tax revenues (TPT). Taxes from cigars, chewing tobacco and loose tobacco are also included in TPT. According to the Tobacco Marketer Association, snuff tobacco accounts for 55% of tobacco products, individual state data was not available. Assuming moist snuff accounts for 55% of the TPT, a 12% increase in the moist snuff tax would result in an increase of revenues to the General Fund of $310,000 in FY2007 and $307,000 in FY 2008.

		2007	**2008**
Tobacco Products Tax Revenues		4,870	4,822
Estimated share due to moist snuff	55%	2,679	2,652
Increase in Revenues	12%	310	307

The average 12% tax increase was estimated using price and sales data provided by industry representatives, and illustrated in the table below. On the Tier 1 premium brands the tax increase would be a 4% increase or $0.03 per can. The tax for mid priced brands would increase 38% and the discount brands would increase 65%. Calculating a weighted average based on the share of sales of each tier results in an overall increase of 12% in tax revenues to the General Fund.

		Tax Per Can			Weighted Average		
	1st Purchaser Price	25% of Value	$.63/per Oz	Increase	% of Sales	Tax Increase	Price
Tier 1, Premium Brands	$2.91	$0.73	$0.76	4%	82%	3%	$2.39
Tier 2, Mid Price Brands	$1.87	$0.47	$0.76	38%	12%	5%	$0.22
Tier 3, Discount Brands	$1.05	$0.26	$0.76	65%	6%	4%	$0.06
* Source US Tobacco					100%	12%	$2.67

SIGNIFICANT ISSUES

Department of Health:

Products such as Skoal Bandits are sometimes referred to as "starter" tobacco products because they appeal to youth and others experimenting with the use of moist snuff (Spit Tobacco and Kids Fact Sheet, www.tobaccofreekids.org).

Since the tax is shifting to a unit-based tax from a value-based tax, the tax reduction for premium products that sell at a higher retail price will be greater than budget products.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative implications range from redesigning reports to educating taxpayers on the different method of calculating the tax.

TECHNICAL ISSUES

TRD notes that on lines 9-10 on page 3, the phrase "in the following manner" should be changed to "at the following rates".

OTHER SUBSTANTIVE ISSUES

TRD: Taxing tobacco products on a per unit basis is generally viewed as more fair and uniform because similar products will pay the same tax. Under the current tax on value, identical products pay different taxes depending on where the first purchaser appears in the distribution chain. The value tax essentially rewards the first purchaser who can obtain the lowest price, thus paying fewer taxes on their products, and helping them maintain comparative advantage in the market. The downside of per unit taxes is that they do not keep pace with inflation.

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