

Statement of Estimated State Revenue Impact

Date: May 14, 2013

Bill Number: H.B. 4074

Authors: White, Cobb-Hunter, K.R. Crawford, Clemmons, Simrill, *et al.*

Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend Article 5, Chapter 21, Title 12, of the Code of Laws of South Carolina, 1976, relating to tobacco, ammunition, and playing cards, so as to levy, assess, and collect five cents on certain products containing nicotine that are commonly used in electronic cigarettes, to limit the rate to no more than ten percent of the excise tax and surcharge on a pack of cigarettes, to require that an invoice for such products clearly states the amount of product included, and to make conforming changes.

REVENUE IMPACT ^{1/}

This bill is expected to increase General Fund business license tax revenue by an estimated \$2,571,429 in FY2013-14.

Explanation

This bill would amend Section 12-21-620 to levy, assess, collect, and pay on all vapor products five cents per milliliter of consumable material in the vapor product and all fractional parts of a milliliter. The rate per milliliter, however, may never exceed ten percent of the tax imposed on a pack of twenty cigarettes. The current rate of tax on a pack of twenty cigarettes is fifty-seven cents per pack. A vapor product is commonly referred to as an electronic cigarette (e-cigarette).

E-cigarettes were invented by a Chinese pharmacist in 2000 and were first marketed overseas by 2003. E-cigarettes became widely available in Europe in 2006 and in the United States in 2007. Many of the major tobacco manufacturers have at least one version of an e-cigarette in their product line. E-cigarettes are designed to mimic cigarettes. They are constructed of metal tubes designed to look like real cigarettes and contain a cartridge filled with a nicotine-laced liquid that is vaporized by a battery-powered heating element. The nicotine vapor is inhaled by smokers when they draw on the device. They come in a variety of flavors, nicotine levels, and varieties, and are generally used as a substitute or in conjunction with, regular cigarettes for those individuals attempting to cease or limit smoking. Manufacturers are not required to disclose the ingredients in e-cigarette liquid, or the substances present in the vapor inhaled and exhaled by the user. E-cigarettes are currently an unregulated product by the Food and Drug Administration.

According to information from the Tobacco Vapor Electronic Cigarette Association, annual sales of electronic cigarettes are forecast to approach \$1,000,000,000 nationally in 2013. This translates into annual e-cigarette sales of \$15,000,000 in South Carolina in 2013. A survey of national e-cigarette supply distributors yielded an average retail price of \$1.75 for

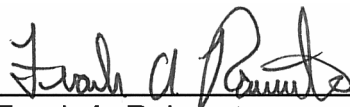
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one nicotine-filled cartridge. Replacement cartridges are usually sold in packages of five cartridges. Each cartridge contains nicotine, water, food flavorings, and propylene glycol. The amount of nicotine per cartridge can range from zero to 48 milligrams. For comparison, the typical regular strength cigarette contains 24 milligrams of nicotine. To aid in the analysis, we need to state several conversion factors. On a cigarette pack equivalent basis:

- One milliliter of nicotine-filled fluid equals one pack of cigarettes, or 20 cigarettes.
- Ten milliliters of nicotine-filled fluid, therefore, equals 10 packs of cigarettes, or 200 cigarettes, or one carton of cigarettes.
- A 30 milliliter bottle of e-liquid nicotine is equal to 600 cigarettes, or five pre-filled nicotine cartridges.

The proposed tax on electronic cigarettes is five cents per one milliliter, or one pack of 20 cigarettes. Dividing \$15,000,000 of annual e-cigarette sales in South Carolina by an average price of \$1.75 per nicotine-laced cartridge equals an estimated 8,571,429 nicotine-laced cartridges sold in South Carolina. Multiplying 8,571,429 nicotine-laced cartridges by an average cartridge containing six milliliters of nicotine-laced solution per cartridge equals an estimated 51,428,571 milliliters of nicotine-laced solution, and applying a five cents per milliliter tax rate yields an increase in General Fund business license tax revenue by an estimated \$2,571,429 in FY2013-14.

This act takes effect July 1, 2013.



Frank A. Rainwater
Chief Economist

Analyst: Martin

¹¹ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.