



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 18, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 0440)

Dear Chairman Powell:

The bill would establish a \$0.05 per milliliter excise tax on all “consumable vapor products”, which is any liquid that contains nicotine and is intended to be heated into an aerosol and inhaled. This includes but is not limited to “e-liquid, e-juice, vape juice, and cartridges that are prefilled with such a nicotine solution”. The tax would be applicable to sales made on or after July 1, 2017.

Georgia State University’s Fiscal Research Center (FRC) estimated that the bill would increase state revenue by \$5.2 million to \$7.6 million in fiscal year 2018. Assuming increased consumption, the revenue would increase to between \$6.3 million and \$11.1 million in fiscal year 2022. The assumptions used by FRC are included in the appendix.

Table 1. Estimated State Revenue Increase from LC 43 0440

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Consumption Case	\$7.6	\$8.3	\$9.2	\$10.1	\$11.1
Low Consumption Case	\$5.2	\$5.4	\$5.7	\$6.0	\$6.3

The Department of Revenue estimated annual staffing costs of \$1.1 million and one-time costs of \$75,831. Based on an estimate of 15,311 entities required to pay the excise tax and the time required to address compliance issues with monthly payments, DOR anticipates the need for 17 agents (salaries/benefits of \$63,753 each). In addition, DOR’s one-time costs includes \$54,706 for computers and equipment needed by the new agents and \$16,000 in IT costs for updating the existing tax return, creating methods to post and track the new tax, updating the citations and inspection work flows, and updating the tobacco license issuance and renewals. Finally, \$5,000 in one-time costs would be used to develop training and education for call centers and \$125 for legal review of the new return.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney".

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The Federal Drug Administration (FDA) defines the group of products that deliver nicotine through the vaporization of nicotine solution as Electronic Nicotine Delivery systems (ENDS). They are sold in three broad forms, disposable e-cigarettes, rechargeable e-cigarettes, and vaporizers. According to FDA all use liquid containing nicotine that is heated into an aerosol that the user inhales.

Euromonitor International, a global market research firm that focuses on consumer products including the e-cigarette and vapor markets, estimated that the US made up 43 percent of the \$8 billion global industry in 2015. They also estimate that in the US, the market is split equally between e-cigarettes (disposable and rechargeable) and tank based vapor systems. Based on these factors and the fact that the average price paid per milliliter varies between 65 cents and \$2.50 depending on the type of product, it is estimated that between 89 million and 114 million milliliters of nicotine solution was consumed in Georgia in 2015. This range represents the 2015 base for the high and low consumption projections for the revenue estimate.

The sale of e-cigarettes and other vapor products grew as fast as 21 percent annually when first widely available. According to Neilson Market Research, this growth might have slowed in recent years and the market could even be contracting. On the other hand, BIS Research and other another market research firms believe the US market for these products will continue to grow at over 20 percent per year. It is assumed for this analysis that growth in milliliters consumed in Georgia will be between five and ten percent annually between 2018 and 2022.

Three southeastern states have considered or passed a five cent per milliliter excise tax on nicotine solution since 2015. Louisiana and North Carolina passed such legislation while South Carolina has only proposed the law. Because of the short time since the passage of these new taxes, data on revenues collected are not yet available from these states. However, fiscal analyses of the proposed legislation in North Carolina, Louisiana, and South Carolina suggest annual consumption of nicotine solution is believed to average approximately 10 milliliters per capita. For Georgia, this would imply consumption of about 102 million milliliters in 2015, roughly the midpoint of our 2015 base year estimate for consumption.

Table 2. High and Low Consumption and Revenue Estimates

<i>(all amounts in millions)</i>	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Consumption Estimate:					
Milliliters of Nicotine Solution	151.4	166.6	183.3	201.6	221.7
Total Revenue	\$7.6	\$8.3	\$9.2	\$10.1	\$11.1
Low Consumption Estimate:					
Milliliters of Nicotine Solution	103.5	108.7	114.2	119.9	125.9
Total Revenue	\$5.2	\$5.4	\$5.7	\$6.0	\$6.3