



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 4, 2023

Honorable Michelle Au
State Representative
611-G Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 192 (LC 43 2598)

Dear Representative Au:

The bill would increase the excise tax on consumable vapor products and treat all consumable vapor products uniformly. Consumable vapor products in a closed system are currently taxed at 5¢ per fluid milliliter, while all other vapor products are taxed at 7 percent of the wholesale cost price. This bill would change the excise tax on all consumable vapor products to a 15 percent tax on the wholesale cost price. No effective date is specified but is assumed July 1, 2024 for purposes of the fiscal note.

Impact on State Revenue

Georgia State University’s Fiscal Research Center (FRC) estimated that the bill would increase state revenue as shown in Table 1. FRC provide a range of revenue increase based on the impact that the increased taxes would have on product sales. The appendix provides details of the analysis.

Table 1. Projected Revenue Effects, FY 2025-29

(\$ millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Low Response, High Revenue	\$29.0	\$32.1	\$34.7	\$37.3	\$40.0
High Response, Low Revenue	\$20.2	\$22.3	\$24.0	\$25.8	\$27.6

Impact on State Expenditures

The Department of Revenue would be able to implement the provisions of the bill with existing resources. It estimated that changes to its information system would require seven weeks, equating to approximately \$29,000 in staff time.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Tobacco tax revenues from consumable vapor products during FY 2023 totaled \$11.4 million, based on DOR revenue reporting, with \$2.2 million derived from the 5¢ per fluid milliliter tax on closed-system products and the remainder from the 7-percent tax on the wholesale cost price on all other vapor products. Statista, an industry research service, expects revenues from the vapor industry to grow 7.47 percent during FY 2024 and for growth rates to decline to 1.42 percent by FY 2029. The estimates assume half of this growth is the result of price inflation and the remaining growth is based on increasing consumption. Table 2 details the milliliters of consumable vapor product wholesale purchases projected through FY 2029 based on this expected growth.

Table 2. Current Law Milliliter, Wholesale Purchase, and Revenue Projections, FY 2025–29

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Units of Consumable Vapor Product (in millions of milliliters)					
Current Law Baseline	46.7	47.6	47.9	48.3	48.6
Wholesale Purchases of Open/Wholesale Vapor Products (\$ millions)					
Current Law Baseline	\$150.2	\$156.0	\$158.2	\$160.4	\$162.7
Revenues					
Current Law Baseline	\$12.8	\$13.3	\$13.5	\$13.6	\$13.8

The tax increases are assumed to pass fully to consumers via higher retail prices. Online product research and research published in 2020 in the peer-reviewed journal, *Tobacco Induced Diseases*, indicates that the average wholesale cost price per milliliter for closed vaping systems is between \$2.25 and \$3.15. At these values and for a typical two-millimeter closed system purchase, the current tax of 10¢ would increase to between 73¢ and \$1.02. This estimate is expected to increase the retail price for closed systems by between 8.2 and 9.2 percent, the basis for the high-low behavioral response estimates. The increase from 7 to 15 percent on all other vapor products is estimated to increase retail prices by 6.1 percent.

Research published in the *Journal of Health Economics* in 2022 found that the own-price elasticity of e-cigarettes is -2.2, meaning that a 1-percent increase in the retail price of these products predicts a 2.2-percent decline in unit purchases. The high-low behavioral response estimates assume a high response of a 2.5-percent reduction in units purchased and a low of a 2-percent reduction. The low response, high revenue estimates are also based on \$3.15 of wholesale cost-price per milliliter for closed systems and the high response, low revenue are also based on \$2.25.

Table 3. Projected Wholesale Purchases of Consumable Vapor Products, FY 2025–29

(\$ millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Closed System Vapor Products					
Low Response, High Revenue Case	\$147.0	\$165.3	\$181.9	\$198.8	\$215.9
High Response, Low Revenue Case	\$96.7	\$108.7	\$119.7	\$130.8	\$142.0
Open/Wholesale Vapor Products					
Low Response, High Revenue Case	\$132.0	\$137.1	\$139.0	\$141.0	\$143.0
High Response, Low Revenue Case	\$123.7	\$128.5	\$130.4	\$132.2	\$134.1