



# SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

## STATEMENT OF ESTIMATED FISCAL IMPACT

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<b>Bill Number:</b>	H. 4303	Amended by Sales & Use Tax Subcommittee of House Ways and Means on April 23, 2025
Subject:	Cigarettes for Heating	
Requestor:	House Ways and Means	
RFA Analyst(s):	Manic	
Impact Date:	April 29, 2025	

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### Fiscal Impact Summary

This bill creates a new tax on cigarettes for heating made of tobacco or any substitute for tobacco (heated tobacco products, or HTP) equal to 10 mills on each heated cigarette or 20 cents per pack of 20 heated cigarettes. The bill takes effect on October 1, 2025.

The Department of Revenue (DOR) indicates that the bill will have no impact on the agency as it can implement the new tax with existing staff and resources.

Based on limited information regarding HTP usage, the bill could potentially increase General Fund revenue from the new tax on heated cigarettes that takes effect on October 1, 2025, by approximately \$3,713,000 in FY 2025-26 for three quarters of the fiscal year and approximately \$4,950,000 in FY 2026-27. The impact may vary as limited data are available regarding HTP. Please note however, if current cigarette smokers switch products, cigarette tax revenue may be reduced in the future due to the lower tax rate on HTP or to a larger degree if HTP remain exempt from tax completely.

### Explanation of Fiscal Impact

#### Amended by Sales & Use Tax Subcommittee of House Ways and Means on April 23, 2025 State Expenditure

This bill creates a new tax on heated cigarettes equal to 10 mills on each heated cigarette or 20 cents per pack of 20 heated cigarettes. DOR indicates that the bill will have no impact on the agency as it can manage the new requirements with existing staff and resources.

#### State Revenue

This bill creates a new tax on HTP equal to 10 mills on each heated cigarette. Such cigarettes are also referred to as sticks and are packaged as 20 sticks per pack, similar to traditional cigarettes. The tax rate translates to 20 cents per pack, which will be credited to the General Fund.

According to a recent study published by *Substance Abuse* on awareness of HTP<sup>1</sup>, approximately 2.2 percent of the U.S. adult population use HTP. The U.S. Census Bureau estimates that the adult population in South Carolina totals 4,326,760 people.<sup>2</sup> Applying the 2.2 percent share to the state's adult population, we estimate that approximately 95,200 people use HTP in the state. Average usage of HTP is 11 to 20 heated tobacco sticks per day, or approximately 5 packs per week.<sup>3</sup> Based on this information, the estimated 95,200 users of HTP are expected to consume approximately 24,752,000 packs or 495,040,000 heated tobacco sticks per year. With a 10 mills tax rate per heated tobacco stick, the General Fund tax revenue from HTP could total approximately \$3,713,000 for three quarters of FY 2025-26 and approximately \$4,950,000 starting in FY 2026-27. However, the impact may vary as limited data are available regarding HTP.

As HTP are relatively new, data on consumption are limited. However, the *Substance Abuse* study on awareness of HTP indicates that due to the perceived appeal of HTP (better respiratory satisfaction compared to other Electronic Nicotine Delivery Systems (ENDS), sleek look, and polished appearance of the stores) there is potential for a fast increase in the use of such devices in the U.S. Further, the study indicates that up to 20 percent of current cigarette smokers and approximately 8.5 percent of ENDS users also use HTP. As such, we expect that HTP use will be primarily driven by current cigarette smokers and ENDS users.

Additionally, HTP are not currently taxed. Traditional cigarettes are taxed at 57 cents per pack of 20 cigarettes. From this tax on traditional cigarettes, 7 cents is distributed to the General Fund, and the surtax of 50 cents is distributed \$5 million to the Medical University of South Carolina Hollings Cancer Center, \$5 million to the Smoking Prevention and Cessation Fund, and the remaining surtax revenue to the Medicaid Reserve Fund. For reference, the current cigarette surtax generated approximately \$107 million in FY 2023-24, of which \$13 million went to the General Fund and the remaining \$94 million was from the surtax. This 57-cent tax rate is considerably higher than the new proposed tax rate of 20 cents per pack of 20 heated cigarettes, which would be credited to the General Fund. If current smokers turn to the HTP alternative in the future, net cigarette tax revenue will eventually decrease because of the tax rate differential between regular cigarettes and HTP if the tax rates are different, or to a greater degree if there is no tax on HTP. Since it is difficult to determine the changes in consumer preferences for cigarettes and HTP, it is difficult to estimate the extent to which cigarette tax revenue will decrease if more smokers turn to heated tobacco sticks, but it is a consideration.

<sup>1</sup> Karim, M. A, Talluri, R., Chido-Amajuoyi, O. G., & Shete, S. (2022). Awareness of Heated Tobacco Products Among US Adults – Health Information National Trends Survey, 2020. *Substance Abuse*, 43(1), pp. 1023-1034, Retrieved April 25, 2025, <https://pmc.ncbi.nlm.nih.gov/articles/PMC9782695/pdf/nihms-1850038.pdf>

<sup>2</sup> Although the federal government requires individuals to be age 21 or older to buy tobacco products legally, the analysis by Substance Abuse included adults without respect to this restriction, and therefore, we have estimated usage based on total adult population age 18 and over.

<sup>3</sup> Świątkowska, B., Jankowski, M., & Kaleta, D. (2024). Comparative evaluation of ten blood biomarkers of inflammation in regular heated tobacco users and non-smoking healthy males—a pilot study. *Scientific Reports*, 14(1), 8779, Retrieved April 25, 2025, <https://www.nature.com/articles/s41598-024-59321-y.pdf>

**Local Expenditure**

N/A

**Local Revenue**

N/A



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