



# SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

## STATEMENT OF ESTIMATED FISCAL IMPACT

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<b>Bill Number:</b>	S. 0519	Introduced on April 1, 2025
<b>Subject:</b>	Cigarettes for Heating	
<b>Requestor:</b>	Senate Finance	
<b>RFA Analyst(s):</b>	Manic	
<b>Impact Date:</b>	January 30, 2026	

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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 1.25 mills on each heated cigarette or 2.5 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 the new tax can be implemented 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. Although the bill takes effect on October 1, 2025, it is not likely to be enacted or implemented before the end of FY 2025-26 and will not apply retroactively. Therefore, we anticipate the bill will increase General Fund revenue by approximately \$619,000 per year beginning in FY 2026-27, depending on the timing of implementation. Further, 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

#### Introduced on April 1, 2025

##### State Expenditure

This bill creates a new tax on heated cigarettes equal to 1.25 mills on each heated cigarette or 2.5 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 1.25 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 2.5 cents per pack, which will be credited to the General Fund.

According to a recent study published by *Substance Abuse* on awareness of HTP, approximately 2.2 percent of the U.S. adult population use HTP.<sup>1</sup> The latest U.S. Census Bureau estimate for the adult population in South Carolina is 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 1.25 mills tax rate per heated tobacco stick, the General Fund tax revenue from HTP could total approximately \$619,000 starting in FY 2026-27. Although the bill takes effect on October 1, 2025, it is not likely to be enacted or implemented before the end of FY 2025-26 and will not apply retroactively. Depending on the timing of implementation, the impact in the first year may be less. Further, the impact may also vary from these estimates 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 as follows: \$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 taxes generated approximately \$99.7 million in FY 2024-25, of which \$12.3 million went to the General Fund, and the remaining \$87.4 million was from the surtax. This 57-cent tax rate is considerably higher than the new proposed tax rate of 2.5 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

<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>

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.

**Local Expenditure**

N/A

**Local Revenue**

N/A



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