

Fiscal Note

BILL # HB 2277

TITLE: heated tobacco products; definition

SPONSOR: Biasiucci

STATUS: As Introduced

PREPARED BY: Nate Belcher

Description

The bill would specify that, for luxury tax purposes, the legal definition of "cigarette" does not include "heated tobacco products" (HTPs), which the bill would define as products that, without combusting tobacco plant matter, heat until they produce an inhalable aerosol. These tobacco products are also commonly referred to as "heat-not-burn" products.

Estimated Impact

We expect that the bill would reduce luxury tax revenues, but we lack the data to determine the magnitude of the impact.

Analysis

Currently, heated tobacco products are not specifically accounted for in Arizona's luxury tax statutes. The Department of Revenue (DOR) informed us, however, that based on a Tax Ruling (LTR 20-1) issued by the department in March 2020, they currently classify HTPs as cigarettes for luxury tax purposes. The luxury tax rate on each cigarette is 0.9¢ (or equivalently, 18¢ for a pack of 20 cigarettes).

HB 2277 would codify in statute that cigarettes do not include HTPs. According to DOR, this means that under the bill, HTPs would be subject to one of the statutory tax rates for "other tobacco products," which essentially means tobacco products other than cigarettes. There are several tax rates for "other tobacco products," some of which are based on weight while others are levied on each unit of the product. The bill is unclear with regard to which specific "other tobacco product" tax rate would be imposed on HTPs. Since we do not know how much revenue DOR currently collects from heated tobacco products, and exactly how HTPs would be taxed under the bill, we are unable to estimate the magnitude of the estimated revenue reduction.

Local Government Impact

None

2/14/24

