

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

**DATE:** April 23, 2014  
**TO:** Revenue Laws  
**FROM:** Sandra Johnson  
Fiscal Research Division  
**RE:** E-Cigarettes

<b>FISCAL IMPACT</b> (\$ in millions)					
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available		
<b>State Impact</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
<i>Tobacco Tax</i>					
E-cigarettes		2.1	5.0	5.2	5.3
<b>NET STATE IMPACT</b>	<b>\$0.0</b>	<b>\$2.1</b>	<b>\$5.0</b>	<b>\$5.2</b>	<b>\$5.3</b>

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:**  
North Carolina Department of Revenue

**EFFECTIVE DATE:** January 1, 2015

**TECHNICAL CONSIDERATIONS:**  
None

**BILL SUMMARY:** The proposal applies an excise tax to vapor products. Sections 1 through 9 of the bill modify G.S. 105-113 creating a definition for vapor products and imposing an excise tax of 5¢ per milliliter of the consumable portion of vapor products. Vapor products are defined as noncombustible products that use a heating element to produce vapor from nicotine in a solution. The consumable product is the part of the vapor product that contains the nicotine liquid solution. This tax is effective January 1, 2015.

### **ASSUMPTIONS AND METHODOLOGY:**

Based on industry information, Fiscal Research estimates that the nickel per milliliter tax on vapor products will generate \$5.1 million per fiscal year. A similar tax in South Carolina is expected to generate \$2.5 million per fiscal year.

According to Nielson data, the e-cigarette industry grossed \$1.8 billion in 2013.<sup>1</sup> Roughly 45 percent of e-cigarette sales occur online, with the remainder occurring through traditional channels such as convenience stores. Lorillard's vapor product, Blu, is an industry leader representing 45 percent of all e-cigarette convenience store purchases. Despite the decline/leveling off of traditional tobacco products, the e-cigarette sector is expected to continue to grow with refillable cartridges playing a key role.

The fiscal estimate assumes that between 2.9 percent and 3.4 percent of all e-liquid product sales occur in North Carolina, and that three billion milliliters of e-juice are sold nationally. Apportioning this amount to NC, between 87 million and 102 million milliliters of e-juice is sold in the state annually. A nickel per milliliter excise tax on e-juice would generate between \$4.4 million and \$5.2 million in General Fund Revenue per fiscal year.

**SOURCES OF DATA:**

Minnesota Department of Revenue

South Carolina Board of Equalization

Nicotine and Science Policy, "New Estimates Double Size of US E-cigarette Market; Increasing Importance of Refillable and Modified Devices." Available at: <http://nicotinepolicy.net/gerry-stimson/1317-wells-fargo-march-2014>

**TECHNICAL CONSIDERATIONS:** None

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<sup>1</sup> Nielsen Data Reflects Emerging E-Cig Leaders, CSP.net. Available at: <http://www.cspnet.com/category-management-news-data/tobacco-news-data/articles/nielsen-data-reflects-emerging-e-cig>