



# Fiscal Note

## Fiscal Services Division



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[SF 2480](#) – Taxation of Vapor Products, Appropriations (LSB6950SV.2)  
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### Description

[Senate File 2480](#) relates to the regulation and taxation of alternative nicotine products and vapor products.

The Bill does the following:

- Imposes an alternative nicotine products tax of \$0.05 per container containing up to 20 units and a proportionate tax at the same rate on each unit in excess of 20 units.
- Imposes a vapor products tax of \$0.05 per milliliter of a solution containing nicotine or a nicotine analog and a proportionate tax at the same rate on any fractions of a milliliter.
- Includes alternative nicotine products and vapor products in the inventory tax.

Revenue generated from the alternative nicotine products tax and vapor products tax is deposited into the Health Care Trust Fund (HCTF). The Bill creates a standing HCTF appropriation to the Board of Regents (BOR) beginning in FY 2028 of the first \$3.0 million from revenue collected attributable to the alternative nicotine products tax and vapor products tax. The appropriation is used for the purpose of conducting pediatric cancer research, clinical therapy access, and providing physician-scientist leadership at the University of Iowa Stead Family Children’s Hospital.

The Bill requires the BOR to submit an annual report beginning December 1, 2028, on the appropriation to the General Assembly describing the following:

- The research programs initiated or advanced as a result of the appropriation.
- The number of patients served, including patients enrolled in clinical trials or therapy.
- Any outcomes to the extent available on the efficacy of the funded programs, trials, or therapies.

The Bill regulates nicotine analogs in the same manner as alternative nicotine products and modifies requirements for distributors, manufacturers, and subjobbers that sell alternative nicotine products and vapor products. A component, part, or accessory of a vapor product is considered a vapor product if sold in combination with a substance containing nicotine, a nicotine analog, tobacco, or tobacco derivatives.

The Bill takes effect January 1, 2027.

### Background

The HCTF is annually appropriated to the Department of Health and Human Services (HHS) to support the [Medicaid Program](#). In FY 2025, \$144.4 million was appropriated from the HCTF to the HHS for Medicaid.

The inventory tax is applied on the effective date of an increase to the tax rate for cigarettes, little cigars, tobacco products, unused cigarette tax stamps, and unused metered imprints. The inventory tax rate is the difference between the amount of tax paid on each item and the new amount required to be paid on each item. The inventory tax is applied only if there is an

increase in the tax rate for cigarettes, little cigars, tobacco products, unused cigarette tax stamps, and unused metered imprints.

Alternative nicotine products and vapor products are subject to the sales and use tax. Cigarette and tobacco taxes do not apply to alternative nicotine products and vapor products that do not contain tobacco.

Under current law, a component, a part, or an accessory of a vapor product is not regulated as a vapor product. Nicotine analogs are not considered alternative nicotine products. A nicotine analog is a substance that has a chemical structure substantially similar to nicotine or that has an effect on the central nervous system that is substantially similar to, or greater than, the effects of nicotine.

A State permit under Iowa Code section [453A.13](#) and a local permit under Iowa Code section [453A.47A](#) are required for the sale of alternative nicotine products and vapor products.

### **Assumptions**

- Each container of alternative nicotine products contains 20 units.
- The largest alternative nicotine product brand has a market share of 68.0% and had a shipment volume of 794.0 million containers in 2025.
- There were 21.1 million standardized unit sales of vapor products in June 2024.
- Disposable vapor products account for 58.1% of standardized unit sales and have an average volume of 11.7 milliliters per device.
- Prefilled cartridges account for 41.9% of standardized unit sales and have an average volume of 1.3 milliliters per pod. There are five pods in a standardized unit.
- Online sales will be 20.0% of total vapor product sales.
- Sales of alternative nicotine products and vapor products will increase by 5.54% each year.
- Sales of alternative nicotine products and vapor products in Iowa will be proportional to the State's share of the national population.
- Alternative nicotine products and vapor products will be taxed when transported from distributors to retailers.
- Alternative nicotine products and vapor products stored in inventory at retailers on the effective date of the Bill will be subject to the alternative nicotine products tax and the vapor products tax.
- Businesses involved in the distribution and retail of alternative nicotine products and vapor products keep two months of inventory.
- It is estimated that the tax on alternative nicotine products and vapor products stored in inventory will result in approximately \$400,000 in one-time moneys being deposited into the HCTF.
- Because the new excise tax on vapor products and alternative nicotine products takes effect January 1, 2027, the FY 2027 revenue is for six months. This is estimated to be \$1.2 million and will be deposited into the HCTF to be used for Medicaid.
- Beginning in FY 2028, any revenue generated by the excise tax on vapor products and alternative nicotine products will be deposited into the HCTF and the first \$3.0 million will be appropriated to the BOR through an annual standing appropriation.

**Fiscal Impact**

Senate File 2480 is estimated to increase revenue to the HCTF by the following amounts:

- FY 2027 = \$1.6 million
- FY 2028 = \$2.6 million
- FY 2029 = \$2.7 million
- FY 2030 = \$2.9 million
- FY 2031 = \$3.0 million

Under the Bill, it is estimated that the annual standing appropriation from the HCTF to the BOR for pediatric cancer research will be the following amounts:

- FY 2028 = \$2.6 million
- FY 2029 = \$2.7 million
- FY 2030 = \$2.9 million
- FY 2031 = \$3.0 million

**Sources**

Iowa Department of Revenue  
Centers for Disease Control and Prevention  
Census Bureau  
Statista  
American Journal of Preventive Medicine  
Maryland Tobacco Control Resource Center  
Monitoring Tobacco Product Use  
Truth Initiative  
Philip Morris International 2025 Investor Report  
Legislative Services Agency calculations

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The Fiscal Note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this Fiscal Note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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