

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Watts

3. **Committee** House Finance

4. **Title** Cigarette Tax: Cigarette Tax Increase

2. **Bill Number** HB 2247

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the state tax on cigarettes from two and one-half cents per pack to 25 cents per pack. This bill would also allow all counties to impose a local cigarette tax. Counties would be limited to imposing a tax of no more than 50 cents per pack.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Tentative. (See Line 8.)

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2002-03	\$155,700	0	GF
2003-04	\$788,975	8	GF
2004-05	\$479,200	8	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$12.1 million	GF
2003-04	\$146.3 million	GF
	\$.387 million	TTF
	\$.774 million	Local
2004-05	\$145.5 million	GF
	\$.419 million	TTF
	\$.839 million	Local

7. **Budget amendment necessary:** Yes.

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8. Fiscal implications:

Administrative Costs

The Department would incur costs of \$155,700 in Fiscal Year 2003, \$788,975 in Fiscal Year 2004, and \$479,200 in Fiscal Year 2005 and years thereafter. These costs would be necessary for eight new compliance positions and for the production and design of new stamps.

Revenue Impact

This bill would increase General Fund revenues by \$12.1 million in Fiscal Year 2003, \$146.3 million in Fiscal Year 2004, and \$145.5 million in Fiscal Year 2005. Revenues for the transportation trust fund would increase by \$.387 million in Fiscal Year 2004 and .419 million in Fiscal Year 2005. Local revenues would increase by \$.774 million and \$.839 million respectively. The amounts above reflect increased sales tax revenue, as the cigarette tax is included in the price on which the sales tax is computed.

This bill would increase the local tax revenue of all counties that chose to implement the tax this bill authorizes. If all counties not currently imposing a local cigarette tax and Arlington and Fairfax Counties chose to impose the local cigarette tax at 50 cent per pack effective July 1, 2003, this bill would result in an estimated local revenue increase of \$16.4 million for the FY 2003, \$195.7 million for FY 2004, and \$194.4 million for FY 2005. For purposes of this estimate, the assumption is that all localities will impose a cigarette tax at 50 cents per pack. Because the cigarette tax is included in the price on which sales tax is computed, sales tax revenues would increase by \$3 million in FY 2004 and \$3.2 million in FY 2005, provided all counties that do not currently impose the local cigarette tax and Arlington and Fairfax Counties impose the cigarette tax rate at 50 cents per pack.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

While the most common pack size of cigarettes is 20 cigarettes per pack, a few cigarette manufacturers do produce packs of cigarettes that contain either more or less than 20 cigarettes per pack. Because of the varying size of packs of cigarettes, the following technical amendment is suggested to restate the tax rate on cigarettes on a per cigarette basis:

Page 1, Line 17. After: ~~cigarette~~

Strike: 25

Insert: one and one-quarter

Page 1, Line 17. After: per
Strike: *pack of cigarettes*
Insert: cigarette

11. Other comments:

Virginia Cigarette Tax

Virginia first imposed a state cigarette tax in 1960, at a rate of three cents per pack. A similar tax was also imposed on cigars. The tax rate on cigarettes remained at three cents per pack until 1966, when Virginia imposed a sales and use tax and simultaneously lowered the cigarette tax to 2.5 cents per pack, where it remains today. The tax on cigars was repealed in 1966 and Virginia currently taxes no other tobacco product other than cigarettes. Virginia's cigarette tax is currently the lowest state cigarette tax in the nation.

The cigarette tax is paid by wholesale dealers through the purchase of stamps, which must be affixed to each container from which cigarettes are sold. A discount equal to 2.5 cents for a ten-pack carton of cigarettes is available to wholesalers that stamp cigarettes. Wholesalers file a monthly report with the Department of Taxation showing the quantities of cigarettes purchased and stamped.

Taxation of Cigarettes in Other States

All 50 states and the District of Columbia impose a tax on cigarettes. Six states, including Virginia, allow local governments to impose a tax on cigarettes in addition to the state cigarette tax. Current state cigarette tax rates range from a high of \$1.51 per pack in Massachusetts to a low of 2.5 cents per pack in Virginia. The median state cigarette tax in the U.S. is 48 cents per pack. The table below shows the cigarette tax rates in states bordering Virginia.

State	Per Pack
District of Columbia	\$0.65
Kentucky	\$0.03
Maryland	\$1.00
North Carolina	\$0.05
Tennessee	\$0.20
West Virginia	\$0.17

Recent Trends in the State Taxation of Cigarettes

Nineteen states have increased cigarette tax rates during 2002. Three of these states have enacted additional cigarette tax increases that will become effective in either 2003 or 2004. Massachusetts enacted the largest per pack increase of 75 cents. Tennessee enacted the smallest per pack increase at 7 cents.

Local Cigarette Tax

At the present time, two counties, twenty-two cities and twenty-two towns impose a cigarette tax. Only the counties of Arlington and Fairfax are limited, at 5 cents per pack, in the amount of tax that can be imposed. Under this bill, all counties would be allowed to impose a cigarette tax. Counties would be limited to imposing a tax of no more than 50 cents per pack.

Other Legislation

HB 1453 would increase the state tax on cigarettes from two and one-half cents per pack to 20 cents per pack.

HB 1566 would impose a tax on cigarettes of 50 cents per pack and 5 cents per cigar and it would allow localities to impose a tax of 25 cents per pack and 3 cents per cigar.

HB 1712 would increase the state tax on cigarettes from 2.5 cents to 50 cents per pack.

HB 2025 would allow all counties to impose a local cigarette tax not to exceed 50 cents per pack. All additional revenues would be used solely for capital projects for public schools and public school infrastructure improvements.

HB 2026 would allow Arlington and Fairfax Counties to increase their cigarette tax from 5 cents to 50 cents per pack with the additional revenue to be used solely for capital projects for public school construction and public school infrastructure improvements.

HB 2313 would impose a tax on cigarette manufacturers equal to 5 cents per pack.

HB 2531 would allow Arlington and Fairfax Counties to increase its cigarette tax from 5 cents to 30 cents per pack.

SB 835 would impose a tax on cigarette manufacturers equal to 5 cents per pack.

SB 901 would allow Isle of Wight County to impose a local cigarette tax not to exceed 5 cents per pack.

SB 1113 would increase the state tax on cigarettes from two and one-half cents per pack to 60 cents per pack.

cc : Secretary of Finance

Date: 01/20/03/NMS

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