

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Plum

3. **Committee** House Finance

4. **Title** Cigarette Manufacturing Tax

2. **Bill Number** HB 2313

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would impose a tax on the manufacturers of cigarettes equal to 25 hundredths of a cent per cigarette manufactured or produced in Virginia. All money collected from the tax would be deposited into the Medical Assistance Services Fund.

This bill would be effective January 1, 2004.

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	\$54,000	0	GF
2003-04	\$275,740	1	GF
2004-05	\$63,775	1	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$0	NGF
2003-04	\$182.0 million	NGF
2004-05	\$436.8 million	NGF

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

ITEM(S): 283 and 285, Department of Taxation

8. **Fiscal implications:**

Administrative Costs

The Department would incur costs of \$54,000 for FY 2003, \$275,740 for FY 2004, and \$63,775 for FY 2005 and years thereafter for systems design, forms development and an additional compliance position for enforcement.

Revenue Impact

This bill would increase Non-General Fund revenue by \$182.0 million in FY 2004 and \$436.8 million in FY 2005.

The Fiscal Year 2004 revenue effect represents only five months of cigarette manufacturers tax revenue because the tax is remitted the month after the cigarettes are manufactured.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

This bill would impose a tax on the manufacturers of cigarettes equal to 25 hundredths of a cent per cigarette (or 5 cents per pack of 20 cigarettes) manufactured or produced in Virginia.

Disposition of Tax

All money collected from the payment of the cigarette manufacturing tax, including penalties and interest, would be paid into the state treasury to a special nonreverting fund titled the "Medical Assistance Services Fund" (the "Fund"). Any money deposited to or remaining in the Fund during or at the end of a fiscal year would remain in the Fund.

Administration of Fund

The Department of Medical Assistant Services would administer the Fund. All money deposited in the Fund would be used solely for the provision of medical assistant services pursuant to Virginia's Medicaid Program authorized under Title XIX of the Social Security Act.

Tax Administration

The Department would administer the Cigarette Manufacturing Tax and promulgate regulations for its administration and enforcement.

Beginning with the month of February 2004, every manufacturer, on or before the twentieth day of each calendar month, would file a return with the Department stating the number of cigarettes it manufactured or produced in Virginia during the preceding calendar month and any other information required by the Department. The return would be accompanied with the payment of the tax.

Penalties

When any manufacturer fails to make any return or pay the full amount of the tax due, a penalty for the failure to file a return or pay will be imposed in the amount of 5 percent if the failure is for not more than 1 month, with an additional 2 percent for each additional month, or fraction thereof, during which the failure continues, not to exceed 20 percent in the aggregate. The penalty cannot be less than \$50 or exceed \$1,000 for any monthly return.

In the case of a false or fraudulent return, or in the case of a willful or fraudulent failure to file a return, a specific penalty of 25 percent of the amount of the proper tax, but not to exceed \$10,000 for any monthly return, would be assessed. All penalties and interest would be payable by the manufacturer and collectible by the Department in the same manner as if they were a part of the tax imposed.

It would be prima facie evidence of intent to defraud the Commonwealth of Cigarette Manufacturing Tax when any manufacturer reports his cigarettes manufactured and produced in the preceding month at 50 percent or less of the actual amount.

Other Legislation

SB 835 would impose a tax on cigarette manufacturers equal to 4 cents per pack to be applied to a special fund called the "Local Government School Construction Fund".

cc : Secretary of Finance

Date: 01/19/03/NMS

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