

DEPARTMENT OF TAXATION 2003 Fiscal Impact Statement

1. **Patron** Van Yahres2. **Bill Number** HB 27963. **Committee** House Finance**House of Origin:** X **Introduced** **Substitute** **Engrossed**4. **Title** Cigarette Tax: Cigarette Tax Increase**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 60 cents per pack. One-half of the additional revenue would be used to fund the Virginia Medicaid Program and the other half would be distributed to the counties and cities based upon the number of school aged children in the locality. Counties and cities could use this additional revenue solely for public education purposes.

This bill does not specify an effective date.

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	\$14.68 million	GF
	\$14.68 million	Local
2003-04	\$180.2 million	GF
	\$906,000	TTF
	\$176.75 million	Local
2004-05	\$179.5 million	GF
	\$982,000	TTF
	\$175.73 million	Local

7. Budget amendment necessary: Yes.

ITEM(S): Page 1, Revenue Estimates
283 and 285, Department of Taxation

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 in fiscal years thereafter. These costs would be necessary for 8 new compliance positions and for the production and design of new cigarette stamps.

Revenue impact

This bill would increase general fund revenues, which would be used solely to fund the Virginia Medicaid Program, by \$14.68 million in Fiscal Year 2003, \$180.2 million in Fiscal Year 2004, and \$179.5 million in Fiscal Year 2005. Revenues for the Transportation Trust Fund would increase by \$906,000 in Fiscal Year 2004 and \$982,000 in Fiscal Year 2005. Local revenues, which would be used solely by counties and cities for public education purposes, would increase by \$14.68 million in Fiscal Year 2003, \$176.75 million in Fiscal Year 2004, and \$175.73 million in Fiscal Year 2005. This bill would not impact the revenues from the current 2 ½ cent cigarette tax that is deposited in the General Fund.

The amounts above reflect increased sales tax revenue, as the cigarette tax is included in the price on which the sales tax is computed.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.**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.

Proposed Legislation

This bill would increase the state tax on cigarettes from two and one-half cents per pack to 60 cents per pack. One-half of the additional revenue would be used to fund the Virginia Medicaid Program and the other half would be distributed to the counties and cities in the same manner as the state sales and use tax that is distributed based on school age population. Counties and cities could use this additional revenue solely for public education purposes.

This bill provides that revenues distributed to localities for education would not be used to calculate or reduce the share of federal, state, or local revenues or other funds otherwise available to counties and cities, including, but not limited to, the computation or reduction of state basic aid payments.

Other Legislation

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 2247 would impose a tax on cigarettes of 25 cents per pack and it would allow localities to impose a tax of 50 cents per pack.

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

SB 835 would impose a tax on cigarette manufacturers equal to 4 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: 01/24/03/NMS

Document : \\TAXOFFICE\LEGISDIR\2003leg\WorkInProcess\OTPwork\House Bills\HB2796F161.doc