

**DEPARTMENT OF TAXATION  
2003 Fiscal Impact Statement**

1. **Patron** Whipple

2. **Bill Number** SB 1113

3. **Committee** Senate Finance

**House of Origin:**  
 **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.

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	\$29.4 million	GF
2003-04	\$355.2 million	GF
	\$906,000	TTF
	\$1,811,000	Local
2004-05	\$353.3 million	GF
	\$982,000	TTF
	\$1,963,000	Local

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

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**8. Fiscal implications:**

**Administrative Costs**

The Department would incur costs of \$155,700 in FY 2003, \$788,975 in FY 2004, and \$479,200 in FY 2005 and in fiscal years thereafter. These costs would be necessary for 8 new Compliance positions and for the production and design of new stamps.

**Revenue Impact**

This bill would increase General Fund revenues by \$29.4 million in FY 2003, \$355.2 million in FY 2004, and \$353.3 million in FY 2005. Revenues for the transportation trust fund would increase by \$906,000 in FY 2004 and \$982,000 in FY 2005. Local revenues would increase by \$1.811 million in FY 2004 and \$1.963 million in FY 2005.

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: No.**

**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 The tax on cigars was repealed in 1966 and Virginia currently taxes no other tobacco product other than cigarettes.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.

## **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.

cc : Secretary of Finance

Date: 01/17/03/NMS

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