

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** Phillip A. Hamilton

2. **Bill Number** HB 33

3. **Committee** House Finance

**House of Origin:**

  X   Introduced

      Substitute

      Engrossed

4. **Title** State Cigarette Tax; Rates

**Second House:**

      In Committee

      Substitute

      Enrolled

### 5. Summary/Purpose:

This bill would impose a tax on all tobacco products at the rate of 50 cents per pack or 5 cents per cigar and allow all localities to impose a local tobacco products tax at a rate not to exceed 25 cents per pack or 3 cents per cigar. Revenues from the state tobacco products tax would be deposited in the General Fund until a Health Care Trust Fund is created for the state tobacco products tax.

This bill does not specify an effective date.

### 6. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

#### 6a. Expenditure Impact:

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2003-04	\$243,126	1	GF
2004-05	\$799,300	9	GF
2005-06	\$507,200	9	GF
2006-07	\$522,420	9	GF
2007-08	\$538,100	9	GF
2008-09	\$554,240	9	GF
2009-10	\$570,870	9	GF

#### 6b. Revenue Impact:

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$8.8 million	GF
	\$0	Local
	\$0	TTF
2004-05	\$320.4 million	GF
	\$1.5 million	Local
	\$0.8 million	TTF
2005-06	\$320.0 million	GF
	\$1.7 million	Local
	\$0.8 million	TTF

2006-07	\$317.0 million	GF
	\$1.6 million	Local
	\$0.8 million	TTF
2007-08	\$318.4 million	GF
	\$1.6 million	Local
	\$0.8 million	TTF
2008-09	\$319.7 million	GF
	\$1.6 million	Local
	\$0.8 million	TTF
2009-10	\$321.2 million	GF
	\$1.6 million	Local
	\$0.8 million	TTF

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

Item(s): Page 1, Revenue Estimates.  
284 and 286, Department of Taxation

**8. Fiscal implications:**

Administrative Costs

The Department would incur administrative costs of \$243,126 in FY 2004, \$799,300 in FY 2005, \$507,200 in FY 2006, \$522,420 in FY 2007, \$538,100 in FY 2008, \$554,240 in FY 2009, and \$570,870 in FY 2010 for systems modifications, forms revisions, the printing and distribution of updated forms and 9 additional FTE's for tobacco tax enforcement purposes.

Some of the administrative costs that the Department would incur as a result of this bill are similar to the costs for the cigarette tax increase in the Governor's tax reform plan that are assumed in the Executive Budget. The Executive Budget assumes costs of \$50,619 in FY 2004, \$803,354 in FY 2005, \$471,200 in FY 2006, \$471,200 in FY 2007, \$485,340 in FY 2008, \$499,900 in FY 2009, and \$514,900 in FY 2010 to implement the cigarette tax increase proposed in the Governor's tax reform proposal.

Revenue Impact

Compared to current law, this bill is estimated to increase state and local revenues by \$8.8 million in FY 2004, \$322.7 million in FY 2005, \$322.4 million in FY 2006, \$319.5 million in FY 2007, \$320.8 million in FY 2008, \$322.1 million in FY 2009, and \$323.6 million in FY 2010. The tobacco products tax portion of these revenues is \$2.0 million in FY 2004, \$24.6 million in FY 2005, \$25.7 million in FY 2006, \$26.9 million in FY 2007, \$28.2 million in FY 2008, \$29.5 million in FY 2009, and \$31.0 million in FY 2010.

The Executive Budget assumes the passage of the Governor's tax reform proposal. The Governor's tax reform proposal contains provisions that would increase the state cigarette tax rate to 25 cents a pack. The following chart compares the state and local revenue effects of the cigarette tax increase contained in this bill on current law with the changes to the state and local revenue forecast, assumed in the Executive Budget, caused by the similar provision in the Governor's tax reform proposal.

<b>Fiscal Year</b>	<b>Effect of HB 33 on State and Local Revenue</b>	<b>State and Local Revenue Effects of Similar Provisions in the Governor's Tax Reform Proposal</b>	<b>Difference Between HB 33 and Similar Provisions in the Governor's Tax Reform Proposal</b>
2004	\$8.8 million	\$4.0 million	\$4.8 million
2005	\$322.7 million	\$146.5 million	\$176.2 million
2006	\$322.4 million	\$145.8 million	\$176.6 million
2007	\$319.5 million	\$145.8 million	\$173.7 million
2008	\$320.8 million	\$143.8 million	\$177.0million
2009	\$322.1 million	\$143.8 million	\$178.3 million
2010	\$323.6 million	\$143.8 million	\$179.8 million

**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 \$2.05 per pack in New Jersey to a low of 2.5 cents per pack in Virginia. The median state cigarette tax in the

U.S. is 60 cents per pack. The table below shows the cigarette tax rates in states bordering Virginia.

State	Per Pack
District of Columbia	\$1.00
Kentucky	\$0.03
Maryland	\$1.00
North Carolina	\$0.05
Tennessee	\$0.20
West Virginia	\$0.55

#### Recent Trends in the State Taxation of Cigarettes

Eighteen states increased cigarette tax rates during 2002, and seventeen states have increased cigarette tax rates during 2003. Massachusetts enacted the largest per pack increase of 75 cents. Tennessee enacted the smallest per pack increase at 7 cents.

#### State Taxation of Tobacco Products Other Than Cigarettes

Forty-seven states tax tobacco products other than cigarettes. Other tobacco products taxed by states include cigars, smokeless tobacco, pipe tobacco, roll-your-own tobacco, snuff and chewing tobacco. The most common approach taken by states that tax tobacco products other than cigarettes is to impose a tax on the wholesale price of the tobacco product. Of the 47 states that tax other tobacco products, 35 of these states use the wholesale price of the product as the base of the tax. The table below shows the tax rates on other tobacco products in states bordering Virginia.

State	Rate
District of Columbia	Do not tax other tobacco products
Kentucky	Do not tax other tobacco products
Maryland	15% of wholesale price
North Carolina	2% of wholesale price
Tennessee	6.6% of wholesale price
West Virginia	7% of wholesale price

#### Proposal

This bill would impose a tax on all tobacco products at the rate of 50 cents per pack or 5 cents per cigar and allow all localities to impose a local tobacco products tax at a rate not to exceed 25 cents per pack or 3 cents per cigar. Revenues from the state tobacco products tax would be deposited in the General Fund until a Health Care Trust Fund is created for the state tobacco products tax.

#### Other Legislation

**House Bill 1081** and **Senate Bill 467** would increase the state cigarette tax rate to 25 cents per pack and, when fully phased in, would authorize all localities to impose a local cigarette tax at a rate not to exceed 50 cents a pack.

**House Bill 72** would increase the state cigarette tax rate to 50 cents per pack.

**House Bill 74** and **House Bill 972** would authorize all counties to impose a local cigarette tax at a rate not to exceed 50 cents a pack.

**House Bill 103** would increase the state cigarette tax rate to 60 cents per pack.

**House Bill 793** would increase the state cigarette tax rate to 25 cents per pack and would authorize all localities to impose a local cigarette tax at a rate not to exceed 50 cents a pack.

**House Bill 802** would authorize all counties to impose a local cigarette tax with no rate limitation.

**House Bill 886** would increase the state cigarette tax rate to 50 cents per pack and limit all local cigarette tax rates to the rate imposed on January 1, 2004.

**Senate Bill 74** would increase the state cigarette tax rate to 65 cents per pack and, when fully phased in, would authorize all localities to impose a local cigarette tax at a rate not to exceed 50 cents a pack.

**Senate Bill 269** would increase the state cigarette tax to \$1 per pack and limit all local cigarette tax rates to the rate imposed on January 1, 2004.

**Senate Bill 455** would increase the state cigarette tax rate from 2.5 cents per pack to 75 cents per pack and impose an excise tax on other tobacco products at a rate of 3% of the dealer's cost price.

**Senate Bill 465** would increase the state cigarette tax rate to 35 cents per pack and impose a 10% state tax on other tobacco products, and, when fully phased in, would authorize all localities to impose a local cigarette tax at a rate not to exceed 55 cents a pack.

**Senate Bill 478** would authorize Roanoke County to impose a local cigarette tax at a rate not to exceed 15 cents per pack.

**Senate Bill 530** would increase the state cigarette tax rate to 30 cents per pack, distribute all state cigarette tax revenues to local governments, and repeal all local cigarette taxes.

cc : Secretary of Finance

Date: 2/2/2004 CBF