

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

1. Patron Gary A. Reese

3. Committee House Finance

4. Title Cigarette Taxes; Counties

2. Bill Number HB 74

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would authorize all counties to impose a local cigarette tax at a rate not to exceed 50 cents per pack. Counties would be required to reduce their real estate tax rates in order that the revenues from the cigarette tax would be offset by a decrease in real estate tax revenues.

This bill does not specify an effective date.

6. Fiscal Impact Estimates are: Not available. (See Line 8.)

7. Budget amendment necessary: No.

8. Fiscal implications:

As increased local cigarette taxes would increase cigarette prices, the state and counties would experience an increase in sales tax revenue. The amount of increased sales tax revenue is unknown because it is not known which counties would impose a tax and at what rate they would impose it. As this bill would require counties to use any revenues from a local cigarette tax to offset their real estate tax, this bill would have no local tax revenue impact to counties.

9. Specific agency or political subdivisions affected:

All counties.

10. Technical amendment necessary: No.

11. Other comments:

Local Cigarette Taxes

All cities and towns with general taxing powers are currently authorized to impose a cigarette tax with no rate limitations. Twenty-four cities and twenty towns impose a cigarette tax. Only two counties, Arlington and Fairfax, are authorized to impose a local cigarette tax, which is limited to 5 cents per pack.

Real Estate Tax Rates

In general, the local real estate tax rate is not limited by state law. When an annual assessment, biennial assessment or general reassessment of real property by a locality would result in an increase of one percent or more in the total real property tax levied, the locality must reduce its real estate tax rate so as to produce no more than 101 percent of the previous year's total real property tax revenues. As an alternative to lowering the tax rate to the calculated rate, the governing body of the locality may, after holding a public hearing, vote to set the real estate tax rate at a different rate, which may be higher or lower than the calculated rate. State law does not limit this rate.

Proposal

This bill would authorize all counties to impose a local cigarette tax at a rate not to exceed 50 cents per pack. Counties would be required to reduce their real estate tax rates in order that the revenues from the cigarette tax would be offset by a decrease in real estate tax revenues. Counties seeking to impose a cigarette tax or to increase the rate of their cigarette tax would be required to publish notice of the intended action and the impact it would have on the local real estate tax rate.

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 972 would authorize all counties 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.

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

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 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.

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 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.

House Bill 33 would impose a state 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.

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.

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

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

Senate Bill 455 would increase the state cigarette tax rate to 75 cents per pack and impose a 3% state tax on other tobacco products.

cc : Secretary of Finance

Date: 1/30/2004 JEM