DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement

1. Patron H. Russell Potts, Jr.

2. Bill Number SB 269

House of Origin:
X **Introduced**
____ **Substitute**
____ **Engrossed**

3. Committee Senate Finance

4. Title Cigarette Taxes; Rates

Second House:
____ **In Committee**
____ **Substitute**
____ **Enrolled**

5. Summary/Purpose:

This bill would increase the state cigarette tax from 2.5 cents per pack to $1 per pack and require that the additional revenues be appropriated for state police officers' salaries, deputy sheriffs' salaries, teachers' salaries and Medicaid funding. This bill would also limit local cigarette tax rates to the rate that was in effect in the locality on January 1, 2004.

This bill does not specify an effective date.

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

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2003-04	$50,619	0	GF
2004-05	$803,354	8	GF
2005-06	$471,200	8	GF
2006-07	$471,200	8	GF
2007-08	$485,340	8	GF
2008-09	$499,900	8	GF
2009-10	$514,900	8	GF

6b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2003-04	$15.5 million	GF
	$0	Local
	$0	TTF
2004-05	$554.4 million	GF
	$2.7 million	Local
	$1.4 million	TTF
2005-06	$550.7 million	GF
	$3.0 million	Local
	$1.5 million	TTF
2006-07	$543.2 million	GF

	$3.0 million	Local
	$1.5 million	TTF
2007-08	$543.2 million	GF
	$3.0 million	Local
	$1.5 million	TTF
2008-09	$543.2 million	GF
	$3.0 million	Local
	$1.5 million	TTF
2009-10	$543.2 million	GF
	$3.0 million	Local
	$1.5 million	TTF

7. **Budget amendment necessary:** Yes.
   Item(s): Page 1, Revenue Estimates.

8. **Fiscal implications:**

   Administrative Costs

   The Department would incur administrative 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 for systems modifications, forms revisions, the printing and distribution of updated forms and 8 additional FTE's for tobacco tax enforcement purposes. These costs are identical to the costs assumed in the Executive Budget 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 $15.5 million in FY 2004, $566.5 million in FY 2005, $563.8 million in FY 2006, $556.1 million in FY 2007 and each year thereafter.

   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 this bill on current law with the changes to the state and local revenue forecast, assumed in the Executive Budget, caused by these similar provisions in the Governor's tax reform proposal.

Fiscal Year	Effect of SB 269 on State and Local Revenue	State and Local Revenue Effects of Similar Provisions in the Governor's Tax Reform Proposal	Difference Between SB 269 and Similar Provisions in the Governor's Tax Reform Proposal
2005	$15.5 million	$4 million	$11.5 million
2006	566.5 million	146.5 million	420.0 million
2007	563.8 million	145.8 million	418.0 million
2008	556.1 million	143.8 million	412.3 million
2009	556.1 million	143.8 million	412.3 million
2010	556.1 million	143.8 million	412.3 million

9. Specific agency or political subdivisions affected:

Department of Taxation
Counties, cities and towns

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.

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. The table below shows the cigarette tax rates in effect in October 2003 in the Virginia localities that currently impose a cigarette tax.*

City	Rate
Alexandria	$0.50
Bedford	$0.10
Bristol	$0.04
Charlottesville	$0.12
Chesapeake	$0.50
Fairfax	$0.50
Falls Church	$0.25
Franklin	$0.35
Fredericksburg	$0.05
Hampton	$0.65
Lynchburg	$0.35
Manassas	$0.25
Manassas Park	$0.25
Newport News	$0.55
Norfolk	$0.55
Norton	$0.05
Petersburg	$0.10
Poquoson	$0.10
Portsmouth	$0.50
Roanoke	$0.27
Suffolk	$0.50
Virginia Beach	$0.50
Waynesboro	$0.04
Winchester	$0.10

Town	Rate
Blacksburg	$0.20
Bluefield	$0.02
Chilhowie	$0.06
Clifton	$0.05
Clifton Forge	$0.04
Culpeper	$0.10
Grundy	$0.02
Herndon	$0.35
Kilmarnock	$0.05
Leesburg	$0.25
Marion	$0.12
Mount Jackson	$0.05
Pulaski	$0.10
Purcellville	$0.30
Saltville	$0.05
Smithfield	$0.25
Vienna	$0.50
Warrenton	$0.15
Windsor	$0.25
Wytheville	$0.03

County	Rate
Arlington	$0.05
Fairfax	$0.05

* This listing is based on information compiled from Department of Accounts data and information provided by the Weldon Cooper Center.

Proposal

This bill would increase the state cigarette tax from 2.5 cents per pack to $1 per pack. The additional revenues raised from this rate increase would be appropriated for state police officers' salaries, deputy sheriffs' salaries, teachers' salaries and Medicaid funding.

This bill would also limit local cigarette tax rates to the rate that was in effect in the locality on January 1, 2004.

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 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.

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 from 2.5 cents per pack to 50 cents per pack. This bill would limit local cigarette tax rates to the rate that was in effect in the locality 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 455 would increase the state cigarette tax rate to 75 cents per pack and impose a 3% state tax on other tobacco products.

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.