

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Janet D. Howell

2. **Bill Number** SB 74

3. **Committee** Senate 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 increase the state cigarette tax rate from 2.5 to 65 cents per pack. This bill would also authorize all localities to impose a cigarette tax at a maximum per pack rate of (a) 20 cents between July 1, 2004 and July 1, 2005; (b) 35 cents between July 1, 2005 and July 1, 2006; and (c) 50 cents on or after July 1, 2006. Localities that imposed the tax at a higher rate prior to December 1, 2003 would be authorized to continue to impose the tax at such higher rate but no higher.

This bill does not specify an effective date.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
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:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
	\$10.5 million	NGF
	\$0	Local
	\$0	TTF
2004-05	\$5.6 million	GF
	\$374.9 million	NGF
	\$1.9 million	Local
	\$1.0 million	TTF

2005-06	\$6.1 million	GF
	\$372.4 million	NGF
	\$2.1 million	Local
	\$1.1 million	TTF
2006-07	\$6.0 million	GF
	\$367.4 million	NGF
	\$2.1 million	Local
	\$1.0 million	TTF
2007-08	\$6.0 million	GF
	\$367.4 million	NGF
	\$2.1 million	Local
	\$1.0 million	TTF
2008-09	\$6.0 million	GF
	\$367.4 million	NGF
	\$2.0 million	Local
	\$1.0 million	TTF
2009-10	\$6.0 million	GF
	\$367.4 million	NGF
	\$2.0 million	Local
	\$1.0 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 beginning in Fiscal Year 2005. 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, the state cigarette tax increase provided for in this bill is estimated to increase state and local revenues by \$10.5 million in FY 2004, \$383.4 million in FY 2005, \$381.6 million in FY 2006, and \$376.5 million in FY 2007 and each year thereafter. Included in these revenues are Non-General Fund revenue for the Local Government School Construction fund in the amount of \$6.5 million in Fiscal Year 2004, \$230.7 million in Fiscal Year 2005, \$229.2 million in Fiscal Year 2006, and \$226.1 million in Fiscal Year 2007 and each year thereafter. Also included in these revenues are Non-General Fund revenue for the Virginia Health Care Fund in the amount of \$4.0 million in Fiscal Year 2004, \$144.2 million in Fiscal Year 2005, \$143.2 million in Fiscal Year 2006, and \$141.3 million in Fiscal Year 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 74 on State and Local Revenue	State and Local Revenue Effects of Similar Provisions in the Governor's Tax Reform Proposal	Difference Between SB 74 and Similar Provisions in the Governor's Tax Reform Proposal
2004	\$10.5 million	\$4 million	\$6.5 million
2005	\$383.5 million	\$146.5 million	\$237.0 million
2006	\$381.7 million	\$145.8 million	\$235.9 million
2007	\$376.5 million	\$143.8 million	\$232.7 million
2008	\$376.5 million	\$143.8 million	\$232.7 million
2009	\$376.5 million	\$143.8 million	\$232.7 million
2010	\$376.5 million	\$143.8 million	\$232.7 million

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. This bill would have an unknown positive impact on county cigarette tax revenue. The amount of increased cigarette tax revenue is unknown because it is not known which counties would impose a tax and at what rate they would impose it. However, if every county imposed the maximum 50 cents per pack tax, then local revenues would increase by \$11.9 million in FY 2004, \$141.8 million in FY 2005 and \$140.4 million in FY 2006.

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.*

<u>City</u>	<u>Rate</u>	<u>Town</u>	<u>Rate</u>
Alexandria	\$0.50	Blacksburg	\$0.20
Bedford	\$0.10	Bluefield	\$0.02
Bristol	\$0.04	Chilhowie	\$0.06
Charlottesville	\$0.12	Clifton	\$0.05
Chesapeake	\$0.50	Clifton Forge	\$0.04
Fairfax	\$0.50	Culpeper	\$0.10
Falls Church	\$0.25	Grundy	\$0.02
Franklin	\$0.35	Herndon	\$0.35
Fredericksburg	\$0.05	Kilmarnock	\$0.05
Hampton	\$0.65	Leesburg	\$0.25
Lynchburg	\$0.35	Marion	\$0.12
Manassas	\$0.25	Mount Jackson	\$0.05
Manassas Park	\$0.25	Pulaski	\$0.10
Newport News	\$0.55	Purcellville	\$0.30
Norfolk	\$0.55	Saltville	\$0.05
Norton	\$0.05	Smithfield	\$0.25
Petersburg	\$0.10	Vienna	\$0.50
Poquoson	\$0.10	Warrenton	\$0.15
Portsmouth	\$0.50	Windsor	\$0.25
Roanoke	\$0.27	Wytheville	\$0.03
Suffolk	\$0.50		
Virginia Beach	\$0.50	<u>County</u>	<u>Rate</u>
Waynesboro	\$0.04	Arlington	\$0.05
Winchester	\$0.10	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 rate from 2.5 to 65 cents per pack. Forty cents of this increase would be deposited in a new "Local Government School Construction Fund" to be distributed to localities on a set per pupil basis for public school construction and infrastructure and debt service payments on such projects completed after December 31, 1993. The remaining 25 cents would be deposited in a new "Virginia Health Care Fund" to be appropriated for the provision of health care services, including Medicaid payments.

This bill would also authorize all localities to impose a cigarette tax at a maximum per pack rate of (a) 20 cents between July 1, 2004 and July 1, 2005; (b) 35 cents between July 1, 2005 and July 1, 2006; and (c) 50 cents on or after July 1, 2006. Localities that imposed the tax at a higher rate prior to December 1, 2003 would be authorized to continue to impose the tax at such higher rate but no higher.

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 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 from 2.5 cents per pack to 25 cents per pack. This bill would also authorize all localities to impose a local cigarette tax at a rate not to exceed the greater of 50 cents per pack or the rate that was in effect in the locality on January 1, 2004.

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 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 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.