

**DEPARTMENT OF TAXATION  
2004 Fiscal Impact Statement**

**REVISED**

**1. Patron** Mitchell Van Yahres

**2. Bill Number** HB 5006

**3. Committee** House Finance

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

**4. Title** Cigarette Tax; Rate

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

**5. Summary/Purpose:**

This bill would increase the state cigarette tax rate from 2.5 cents per pack to 60 cents per pack. One-half of the additional revenues from this cigarette tax increase would be used solely to fund the costs of the Virginia Medicaid Program. The other one-half would be distributed to counties and cities solely for public education purposes based upon the number of school-aged children in each locality, adjusted by the locality's composite index of ability to pay. The bill would also limit the local cigarette tax rate in cities and towns, when added to the state tax rate, to the greater of 80 cents per pack or 60 cents per pack plus the amount of the tax that was in effect in the locality on January 1, 2004.

The effective date of this bill is not specified.

**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	\$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><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$0	GF
	\$0	Local
	\$0	TTF
2004-05	\$332.5 million*	GF
	\$1.5 million*	Local
	\$0.7 million*	TTF

2005-06	\$350.8 million	GF
	\$1.9 million	Local
	\$1.0 million	TTF
2006-07	\$346.1 million	GF
	\$1.9 million	Local
	\$1.0 million	TTF
2007-08	\$346.1 million	GF
	\$1.9 million	Local
	\$1.0 million	TTF
2008-09	\$346.1 million	GF
	\$1.9 million	Local
	\$1.0 million	TTF
2009-10	\$346.1 million	GF
	\$1.9 million	Local
	\$1.0 million	TTF

\*Assumes effective date of August 1, 2004.

**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 for 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

This impact statement has been revised to reflect the change in the effective date of the provisions of this bill that would be effective in due course. Article IV, § 13 of the Constitution of Virginia states that all laws enacted during a special session other than the Appropriations Act and emergency legislation will take effect on the first day of the fourth month following the month of adjournment of the special session. As the month of March has expired and the special session has not adjourned, **all laws enacted during a special session effective in due course will become effective on August 1, 2004, assuming the special session adjourns before the end of April.** This impact statement has been revised to reflect an August 1, 2004, effective date for the provisions of this bill.

Compared to current law, this bill is estimated to increase state and local revenues by \$0 in FY 2004, \$334.7 million in FY 2005, \$353.7 million in FY 2006, \$349.0 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 revenue forecast, assumed in the Executive Budget, caused by these similar provisions in the Governor's tax reform proposal.

<b>Fiscal Year</b>	<b>Effect of HB 5006 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 5006 and Similar Provisions in the Governor's Tax Reform Proposal</b>
2004	\$0	\$4 million	(\$4 million)
2005	\$334.7 million	146.5 million	\$188.2 million
2006	353.7 million	145.8 million	207.9 million
2007	349.0 million	143.8 million	205.2 million
2008	349.0 million	143.8 million	205.2 million
2009	349.0 million	143.8 million	205.2 million
2010	349.0 million	143.8 million	205.2 million

#### **Revenue Impact – July Effective Date**

If the cigarette tax increase proposed by this bill is effective on July 1, 2004, this bill would result in an increase in state and local revenues by \$9.7 million in FY 2004, \$355.5 million in FY 2005, \$353.9 million in FY 2006, \$349.0 million in FY 2007 and each year thereafter.

#### **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.

<b>State</b>	<b>Per Pack</b>
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 cents per pack to 60 cents per pack effective August 1, 2004. One-half of the additional revenues from this cigarette tax increase would be used solely to fund the costs of the Virginia Medicaid Program. The other one-half would be distributed to counties and cities solely for public education purposes based upon the number of school-aged children in each locality, adjusted by the locality's composite index of ability to pay.

The bill would also prohibit the local cigarette tax rate in cities and towns, when added to the state tax rate, to exceed the greater of 80 cents per pack or 60 cents per pack plus the amount of the tax that was in effect in the locality on January 1, 2004.

cc : Secretary of Finance

Date: 4/5/2004 JEM