

**DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement**

1. Patron William K. Barlow

3. Committee House Finance

4. Title Cigarette Taxes; Counties

2. Bill Number HB 2392

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.

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:

This bill would have an unknown positive impact on cigarette tax revenue for counties. The amount of increased cigarette tax revenue is unknown because it is not known which counties would impose a local cigarette tax and at what rate they would impose the tax. However, if every county imposed a local cigarette tax at the maximum rate authorized by this bill, then local revenues would increase by \$5.7 million in FY 2005, \$166.3 million in FY 2006 and \$164.4 million in FY 2007.

Also, as increased local cigarette taxes would increase cigarette prices, the state and its 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 local cigarette tax and at what rate they would impose the tax.

9. Specific agency or political subdivisions affected:

All counties.

10. Technical amendment necessary: No.

11. Other comments:

State Cigarette Tax

The state cigarette tax is currently 20 cents per pack. It will increase to 30 cents per pack on July 1, 2005. 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.

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 the amount of the state cigarette tax rate.

Proposal

This bill would authorize all counties to impose a local cigarette tax at a rate not to exceed 50 cents per pack.

Other Legislation

House Bill 2035 and **Senate Bill 1204** would impose an excise tax on cigarette manufacturers at the rate of 2 cents for every cigarette sold in Virginia.

House Bill 2625 would increase the cigarette tax dealers discount from 2.5 cents per carton to 2 percent of the price of the cigarette stamps.

House Joint Resolution 664 would require the Department of Taxation study the feasibility of establishing uniformity and consistency among Virginia's localities in the design and use of tax stamps for local cigarette taxes.

Senate Bill 876 would change the cigarette tax laws to provide consistency with the non-participating manufacturer reporting requirements and to enhance compliance and administration

Senate Bill 1038 would provide that one cent of the 30 cents per pack cigarette tax be deposited into the Uninsured Medical Catastrophe Fund.

Senate Bill 1137 would allow counties to impose a local cigarette tax at the state cigarette tax rate.

cc : Secretary of Finance

Date: 1/28/2005 JEM

