

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Kathy J. Byron

2. **Bill Number** HB 2625

3. **Committee** Senate Finance

House of Origin:

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Cigarette Tax; Dealer Discount

Second House:

☒ In Committee

☐ Substitute

☐ Enrolled

5. **Summary/Purpose:**

This bill would increase the dealer discount allowed on the purchase of cigarette tax revenue stamps from 2.5 cents per carton to two percent of the amount charged by the Department of Taxation for the stamps. The bill would also provide a dealer discount to dealers of other tobacco products equal to two percent of the total tax due from the dealer.

The effective date of this bill is not specified.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	<\$2.50 million >	Health Care Fund
2006-07	<\$2.51 million >	Health Care Fund
2007-08	<\$2.52 million >	Health Care Fund
2008-09	<\$2.53 million >	Health Care Fund
2009-10	<\$2.55 million >	Health Care Fund
2010-11	<\$2.57 million >	Health Care Fund

7. **Budget amendment necessary:** Yes.

Item(s): 326, Health Care Fund

8. **Fiscal implications:**

It is estimated that this bill would decrease the Virginia Health Care Fund by \$2.50 million in Fiscal Year 2006, \$2.51 million in Fiscal Year 2007, \$2.52 million in Fiscal Year 2008, \$2.53 million in Fiscal Year 2009, \$2.55 million in Fiscal Year 2010 and \$2.57 million in Fiscal Year 2011. Any reduction in the Health Care Fund increases the General Fund cost of Medicaid on a dollar-for-dollar basis.

The Department's cost to implement this bill would be minimal.

9. **Specific agency or political subdivisions affected:**

10. Technical amendment necessary: No.

11. Other comments:

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 stamping agents when they purchase revenue stamps from the Department to affix to packs of cigarettes. A discount equal to 2.5 cents for a ten-pack carton of cigarettes has been available to stamping agents since 1973. Previously, the discount was 5% of the amount charged by the Department of Taxation for the stamps.

Tobacco Products Tax

A tobacco products tax will be imposed on cigars, smokeless tobacco, pipe tobacco and roll-your-own tobacco, effective March 1, 2005. There is currently no dealer discount allowed for the tobacco products tax.

In general, the tobacco products tax will be imposed on wholesale dealers located within the Commonwealth that sell tobacco products to retail dealers or institutional, commercial or industrial users located within the Commonwealth. The tax will be imposed at a rate of 10 percent of the sales price charged by the wholesale dealer. Chain store distribution centers that distribute tobacco products to their stores for sale at retail will be deemed to be wholesale dealers selling to retail dealers and the tax will be imposed at a rate of 10 percent of the purchase price paid by the distribution center.

In the case of a retail dealer located within the Commonwealth that purchases tobacco products from a wholesale dealer located outside the Commonwealth, the tax will be imposed on the retail dealer at a rate of 10 percent of the purchase price paid by the retail dealer. The retail dealer, however, is not required to collect and remit the tax if the out-of-state wholesale dealer is registered to collect and remit the tax.

Virginia Health Care Fund

Under current law, all of the revenue from the state cigarette and tobacco products taxes and 40% of Virginia's allocations from the Master Settlement Agreement are deposited into the Virginia Health Care Fund. Moneys deposited to the fund are used solely for the provision of health care services as appropriated in the state budget. Health care services include, but are not limited to, Medicaid payments, disease diagnosis, prevention and control and community health services.

Proposal

This bill would increase the dealer discount allowed on the purchase of cigarette tax revenue stamps to two percent of the amount charged by the Department of Taxation for

the stamps. The bill would also provide a dealer discount to dealers of other tobacco products equal to two percent of the total tax due from the dealer.

Other Legislation

House Bill 1885 would make several changes to the basis for and the administration of the Tobacco Products Tax.

House Bill 2629 and **Senate Bill 1202** would modify the conditions under which escrow funds may be released to nonparticipating manufacturers.

House Bill 2899 would exempt exclusive distributors and manufacturers from affixing tax revenue stamps to cigarettes if they are being sold to Virginia stamping agents.

House Bill 2918 would provide for the assignment of NPM escrow funds to the Commonwealth.

House Bill 2919 and **Senate Bill 1332** would provide for tax incentive payments to NPMs.

House Bill 2933 would permit stamping agents to receive a credit for the cost of the tax stamps on cigarettes they have sold but for which payment is uncollectible.

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.

cc : Secretary of Finance

Date: 2/8/2005 JEM