

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** David L. Englin

3. **Committee** House Finance

4. **Title** Cigarette Tax; Rate Increase

2. **Bill Number** HB 395

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the state cigarette tax rate from 30 cents per pack to 80 cents per pack.

This bill does not specify an effective date.

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

Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2005-06	\$0	0	GF
2006-07	\$570,600	8	GF
2007-08	\$497,600	8	GF
2008-09	\$505,600	8	GF
2009-10	\$513,600	8	GF
2010-11	\$521,600	8	GF
2011-12	\$529,600	8	GF

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

Item(s): Page 1, Revenue Estimates.
265, Department of Taxation

8. **Fiscal implications:**

Administrative Costs

The Department would incur administrative costs of \$570,600 in FY 2007, \$497,600 in FY 2008, \$505,600 in FY 2009, \$513,600 in FY 2010, \$521,600 in FY 2011, and \$529,600 in FY 2012 for forms revisions, the printing and distribution of updated forms and 8 additional FTE's for tobacco tax enforcement purposes. If the cigarette tax is increased from 30 cents per pack to 80 cents per pack, the Department anticipates the smuggling of cigarettes into Virginia will increase. The 8 additional full time employees would be necessary to combat cigarette smuggling.

Revenue Impact

This bill is estimated to increase the Health Care Fund and state and local revenues beginning in FY 2006. All cigarette tax revenues attributable to the increase in the cigarette tax rate will be deposited into the Virginia Health Care Fund. This would require an adjustment to Item 302 to reflect the additional cigarette tax revenue of \$ 21 million in FY 2006 and \$254 million in subsequent fiscal years.

Due to the increased price of cigarettes, the revenue from the retail sales and use tax would also increase. It is estimated that there would be an increase in General Fund, Transportation Trust Fund and local revenue of \$3.3 million in Fiscal Year 2007 and \$3.6 million in Fiscal Year 2008 and subsequent fiscal years.

Additionally, as the Counties of Arlington and Fairfax are authorized to impose a local cigarette tax at a rate not exceeding that of the state cigarette tax, Arlington and Fairfax counties would experience an increase in local cigarette tax revenues if they choose to increase their local cigarette tax rates. As it is not known whether they would increase their rates and to what extent, the impact of this bill on local cigarette tax revenues in Arlington and Fairfax counties is unknown and is not included in this revenue estimate.

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. The tax on cigars was repealed in 1966. The cigarette tax increased to 20 cents per pack on August 1, 2004 and again on July 1, 2005 to 30 cents per pack. Virginia, Kentucky and North Carolina are currently ranked as having the 45th lowest state cigarette taxes in the nation.

The cigarette tax is paid by wholesaler dealers who have obtained a stamping agent permit from the Department of Taxation through the purchase of stamps, which must be affixed to each container from which cigarettes are sold. A discount equal to two percent of the purchase price of the cigarette stamps is available to stamping agents. 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 \$2.46 per pack in Rhode Island to a low of 7 cents per pack in South Carolina. The median state cigarette tax in the U.S. is 79 cents per pack. The table below shows the cigarette tax rates in states bordering Virginia.

State	Per Pack
District of Columbia	\$1.00
Kentucky	\$0.30
Maryland	\$1.00
North Carolina	\$0.30
Tennessee	\$0.20
West Virginia	\$0.55

Recent Trends in the State Taxation of Cigarettes

Twelve states, including Virginia, North Carolina and Kentucky increased cigarette tax rates during 2005, and seven states, including Virginia, increased cigarette tax rates during 2004. Maine and Montana enacted the largest increases of \$1.00 per pack. Hawaii enacted the smallest increase at 10 cents per pack.

Proposal

This bill would increase the state cigarette tax rate from 30 cents per pack to 80 cents per pack.

Other Legislation

House Bill 569 would change the penalties for cigarette stamping violations.

House Bill 612 and **Senate Bill 418** would authorize a cigarette tax bad debt deduction.

House Bill 1215 would authorize the County of Isle of Wight to impose a local cigarette tax at a rate not to exceed that of the state cigarette tax.

cc : Secretary of Finance

Date: 01/24/2006 JEM