

**DEPARTMENT OF TAXATION  
2006 Fiscal Impact Statement**

**1. Patron** Timothy D. Hugo

**2. Bill Number** HB 1599

**3. Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**4. Title** Local Cigarette Tax; Use of Dual Stamps  
to Evidence Payment.

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would require every locality that uses a local cigarette tax stamp to enter into an arrangement with TAX for the use of a dual stamp to evidence payment of the state and local cigarette tax.

Under current law, localities may, but are not required to, use a dual stamp.

The effective date of this bill is not specified.

**6. Fiscal Impact Estimates are:** Not available. (See Line 8.)

**7. Budget amendment necessary:** No.

**8. Fiscal implications:**

This bill would have no impact on state revenues. As each pack of cigarettes sold in the Commonwealth must bear a state cigarette tax stamp, the Department should not incur additional expenses selling dual stamps. This bill would have no impact on local revenues. As every locality that would be required to use a dual stamp by this bill already uses a dual stamp or a local stamp, localities should not experience any increased administrative expenses as a result of this bill.

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

All localities that impose a local cigarette tax.

**10. Technical amendment necessary:** No.

## 11. Other comments:

### Local Cigarette Taxes

All cities and towns with general taxing powers are currently authorized to impose a local cigarette tax with no rate limitations. Thirty cities and twenty-nine towns currently impose a cigarette tax. Only two counties, Arlington and Fairfax, are authorized to impose a local cigarette tax, which is limited to the state cigarette tax rate of 30 cents per pack.

Under current law, localities are authorized to use local cigarette tax stamps to evidence the payment of their local cigarette tax. Localities are also authorized to enter into an agreement with TAX to use a dual stamp evidencing the payment of the state and local cigarette taxes.

With the exception of Arlington County, every Virginia locality that administers its own cigarette tax requires the application of a local stamp. Thirteen Virginia localities participate in the Northern Virginia Cigarette Tax Board ("NVCTB"). The tax in these localities is enforced using a dual stamp sold by TAX at the state cigarette tax rate. The NVCTB collects the cigarette tax for the thirteen localities through a monthly wholesaler return system.

### Cigarette Tax Stamping Study

House Joint Resolution 664, passed by the 2005 General Assembly, required TAX to study the use of tax stamps by local governments as evidence of payment of local cigarette taxes by wholesalers and whether a single stamp could be issued for evidence that both state and local cigarette taxes have been paid. TAX was also asked to examine the feasibility of establishing uniformity and consistency among localities in the design and use of tax stamps or other evidence of payment of local cigarette taxes by tobacco wholesalers.

TAX determined that localities are, in general, opposed to the alternatives to the current local cigarette tax stamping laws. Overwhelmingly, localities that administer their own local cigarette taxes stress that in order to be effective, each locality must have its own stamp that is clearly distinguishable from that of other localities and each locality must be able to collect its own tax. The NVCTB localities recommend that other localities use the authorization currently granted by state law to form similar regional administration agencies.

Wholesalers would like to reduce or eliminate the costs of local cigarette tax stamps, including the substantial costs of maintaining inventories of local stamps and stamped cigarettes and the cost of applying different local stamps. Of the six wholesalers who responded to the survey, only one wholesaler supports the current stamping system. The remaining wholesalers support one or more of the alternatives raised in the survey questionnaires, including (1) the mandatory use of a dual stamp, (2) required participation in regional enforcement agencies, or (3) a wholesaler return system.

### Proposal

This bill would require every locality that uses a local cigarette tax stamp to enter into an arrangement with TAX for the use of a dual stamp to evidence payment of the state and local cigarette tax.

### Other Legislation

**House Bill 395** would increase the state cigarette tax to 80 cents per pack.

**House Bill 569** would change the penalties regarding unstamped cigarettes.

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

cc : Secretary of Finance

Date: 01/29/2006 JEM