

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** William K. Barlow

3. **Committee** House Finance

4. **Title** Local Cigarette Tax; Counties

2. **Bill Number** HB 1347

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize all counties, cities and towns to impose a local cigarette tax. Any cigarette tax authorized by this bill could not exceed 5 cents per pack or the amount levied under state law, whichever is greater.

All cities and towns with general taxing powers are currently authorized to impose a cigarette tax with no rate limitations. 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. Under current law, any county cigarette tax would not apply within the limits of any town that imposes its own cigarette tax unless the governing body of the town consents to it. The state cigarette tax is currently 30 cents per pack.

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. This bill would have an unknown positive impact on tax revenues for counties. The amount of 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. Arlington and Fairfax Counties are already authorized to impose a local cigarette tax. If every remaining county imposed a local cigarette tax at the maximum rate authorized by this bill, then local revenues would increase by approximately \$91 million a year. However, increased local cigarette taxes may decrease the demand for cigarettes, and would therefore decrease the amount of state cigarette and sales tax revenues collected from cigarette sales.

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

All localities

10. Technical amendment necessary: No.

11. Other comments:

Cigarette Taxes

The state cigarette tax is currently 30 cents per pack. All cities and towns with general taxing powers are already currently authorized to impose a cigarette tax with no rate limitations. Thirty-one cities and thirty-four towns currently report imposing 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, cities and towns to impose a local cigarette tax at a rate not exceeding 30 cents per pack. Any county cigarette tax authorized by this bill would apply within the limits of any town located in such county only with the town's consent. This bill would remove the grandfather clause that enabled localities that were authorized to impose a local cigarette tax prior to January 1, 1977 to continue to do so.

As this bill would not repeal the current authority for cities and towns to impose a cigarette tax with no rate limitations, its effect on the cigarette taxing authority of cities and towns is not clear. A similar inconsistency exists in current law. Under *Va. Code* § 58.1-3840, all cities and towns established with a charter granting general taxing powers to such locality may impose a cigarette excise tax. In contrast, *Va. Code* § 58.1-3830 provides that only counties, cities, and towns may impose a cigarette tax if such county, city, or town had imposed such a tax prior to January 1, 1977. Despite this conflict, the Attorney General ruled in a 1992 opinion, *Opinions of the Attorney General of Virginia*, 1992 at 172, that towns may impose a cigarette excise tax based on the language *Va. Code* § 58.1-3840. It should be noted, however, that *Va. Code* § 58.1-3830 was not discussed in the opinion.

As this bill would grant to all counties the same the authority to impose a local cigarette tax that is currently granted to the Counties of Arlington and Fairfax under *Va. Code* § 58.1-3831, it would not effect the cigarette taxing authority of Arlington and Fairfax. Additionally, as *Virginia Local Tax Rates, 2007*, published by the Weldon Cooper Center for Public Service, lists the Counties of Arlington and Fairfax as the only counties reporting a local cigarette tax, it appears that no counties currently impose a local cigarette tax under *Va. Code* § 58.1-3830. Thus, this bill should not effect the authority of any county to impose a grandfathered local cigarette tax under *Va. Code* § 58.1-3830.

cc : Secretary of Finance

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