

# DEPARTMENT OF TAXATION

## 2009 Fiscal Impact Statement

1. **Patron** David L. Englin

3. **Committee** House Finance

4. **Title** Cigarette Tax; Increase

2. **Bill Number** HB 2379

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

TAX understands that the patron plans to introduce a substitute bill. This impact statement addresses the substitute bill.

This bill would increase the Cigarette Tax rate from \$0.30 per pack to \$1.19 per pack of 20 cigarettes and would increase the tax on roll-your-own tobacco from 10% to 30% of the manufacturer's sales price. The bill provides that the additional revenue attributable to \$0.59 of the increased tax rate on packs of cigarettes would be dedicated to funding Medicaid program services and the additional revenue attributable to \$0.30 of the increased tax rate on packs of cigarettes would be dedicated to fund state education assistance programs for public schools.

The effective date of this bill is not specified.

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

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

Item(s): Page 1, Revenue Estimates

### 8. **Fiscal implications:**

#### Administrative Costs

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

## Revenue Impact

The introduced Executive Budget incorporates the elimination of the discount currently provided as compensation to stamping agents on their purchases of Virginia revenue stamps and a Cigarette Tax rate increase from \$0.30 to \$0.60 per pack of 20 cigarettes. The revenue estimate for this bill assumes the elimination of the Cigarette Tax discount contained in the introduced Executive Budget.

The current \$0.30 per pack Cigarette Tax provided \$168.3 million in revenue to the Health Care Fund in Fiscal Year 2008. This bill would increase the total revenues designated for the Health Care Fund by \$199.9 million dollars. Of the \$199.9 million, the tax increase on cigarettes would increase Health Care Fund revenue by approximately \$199.2 million, and the tax increase on roll-you-own tobacco would increase Health Care Fund revenue by approximately \$0.7 million. The tax increase on cigarettes would also increase revenues designated to fund state education assistance programs for public schools by \$123.9 million. The overall Cigarette Tax revenue increase from this bill would be \$323.8 million.

Because fewer cigarettes are sold as the price of cigarettes increases, this bill would result in a decrease in the number of cigarettes sold. As the Retail Sales and Use Tax is imposed on cigarettes, the decrease in the number of cigarettes sold would result in Retail Sales and Use Tax revenue decreasing by approximately \$9 million.

The following chart compares the estimated Cigarette Tax revenue impact of this bill, assuming the elimination of the Cigarette Tax discount, with the revenue effects caused by the Cigarette Tax increase to \$0.60 per pack of 20 cigarettes and the elimination of the Cigarette Tax discount assumed in the introduced Executive Budget.

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### **Cigarette Tax Revenue Impact** (millions of dollars)

	<b>House Bill 2379 Cigarette Tax increase with the elimination of the dealer discount</b>	<b>Introduced Executive Budget Cigarette Tax increase and elimination of the dealer discount</b>	<b>Difference between the House Bill 2379 and the Introduced Executive Budget Cigarette Tax increases</b>
Health Care Fund	\$199.9	\$154.1	\$45.8
Public Schools	<u>\$123.9</u>	<u>\$0</u>	<u>\$123.9</u>
<b>Total</b>	<b>\$323.8</b>	<b>\$154.1</b>	<b>\$169.7</b>

As increasing the Cigarette Tax would also have an effect on Retail Sales and Use Tax revenues, the following chart compares the estimated Retail Sales and Use Tax revenue impact of this bill with the revenue effects caused by the Cigarette Tax increase and the elimination of the Cigarette Tax discount assumed in the introduced Executive Budget.

**Retail Sales and  
Use Tax Revenue  
Impact**  
(millions of dollars)

	House Bill 2379 Cigarette Tax increase with the elimination of the dealer discount	Introduced Executive Budget Cigarette Tax increase and elimination of the dealer discount	Difference between the House Bill 2379 and the Introduced Executive Budget Cigarette Tax increases
General Fund	(\$6.3)	\$1.4	(\$7.7)
Trans. Trust Fund	(\$0.9)	\$0.2	(\$1.1)
1% Local	<u>(\$1.8)</u>	<u>\$0.4</u>	<u>(\$2.2)</u>
<b>Total</b>	<b>(\$9.0)</b>	<b>\$2</b>	<b>(\$11.0)</b>

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

Department of Taxation  
Virginia Health Care Fund  
Public Schools

**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 and Kentucky are currently ranked as having the 47th lowest state cigarette taxes in the nation.

<b>State Excise Tax Rates on Cigarettes (Surrounding States)</b>		
<u>State</u>	<u>Tax Rate</u>	<u>Rank</u>
Kentucky	\$0.30	47
Maryland	\$2.00	4
North Carolina	\$0.35	45
South Carolina	\$0.07	51
Tennessee	\$0.62	36
Virginia	\$0.30	47
West Virginia	\$0.55	40
Dist. Of Columbia	\$1.00	26

The Cigarette Tax is paid by wholesale 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 Virginia revenue stamps is available to stamping agents.

## Health Care Fund

Currently, the revenues from the Cigarette Tax are dedicated to the Health Care Fund and used solely for the provision of health care services including, but not limited, Medicaid payments, disease diagnosis, prevention and control, and community health services.

Notwithstanding the provision in the law requiring revenues generated by the Cigarette Tax to be deposited in the Health Care Fund, the enactment clause in this bill would provide that the additional revenue attributable to \$0.30 of the increased tax rate on packs of cigarettes would be dedicated to fund state education assistance programs for public schools.

## Proposal

This bill would increase the Cigarette Tax rate from \$0.30 per pack to \$1.19 per pack of 20 cigarettes and would increase the tax on roll-your-own tobacco from 10% to 30% of the manufacturer's sales price. As a result, Virginia would be tied with Oregon as having the 24<sup>th</sup> highest state cigarette taxes in the nation.

The bill provides that the additional revenue attributable to \$0.59 of the increased tax rate on packs of cigarettes would be dedicated to funding Medicaid program services and the additional revenue attributable to \$0.30 of the increased tax rate on packs of cigarettes would be dedicated to fund state education assistance programs for public schools.

The effective date of this bill is not specified.

## Similar Legislation

**House Bill 2249** 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.

**House Bill 2389** and **Senate Bill 947** would increase the Cigarette Tax from 30 cents per pack to 60 cents per pack of 20 cigarettes and would eliminate the discount provided as compensation to stamping agents on their purchases of Virginia revenue stamps and to dealers for the Tobacco Products Tax. The bill would also impose the Tobacco Products Tax on moist snuff at the rate of \$0.25 per ounce based on net weight.

cc : Secretary of Finance

Date: 1/27/2009 AM  
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