

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Chris S. Runion

3. **Committee** House Finance

4. **Title** Tobacco Products Taxes; Penalties

2. **Bill Number** HB 1357

House of Origin:

 Introduced

 X **Substitute**

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would reduce the rate of the Tobacco Products Tax on cigars to 10 percent of the manufacturer's sales price, not to exceed \$.30 per cigar. Under current law, cigars are subject to the Tobacco Products Tax at the rate of 20 percent of the manufacturer's sales price. Currently, the amount of tax on each cigar is not limited.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective July 1, 2022.

6. **Budget amendment necessary:** Yes:

Page 1, Revenue Estimates

Items 282 and 284: Department of Taxation

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

7a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2021-22	\$78,000	0	GF

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2022-23	(\$12.1 million)	HCF
	(\$100,000)	GF
2023-24	(\$13.9 million)	HCF
	(\$100,000)	GF
2024-25	(\$14.6 million)	HCF
	(\$200,00)	GF
2025-26	(\$15.3 million)	HCF
	(\$200,000)	GF
2026-27	(\$16.1 million)	HCF
	(\$200,000)	GF
2027-28	(\$16.9 million)	HCF
	(\$200,000)	GF

8. Fiscal implications:

Administrative Costs

This bill would result in administrative costs to the state of \$78,000 in Fiscal Year 2022. These costs would be associated with communicating the change in tax rate to affected taxpayers and updating systems and forms prior to the July 1, 2022 effective date.

Revenue Impact

It is unknown to what extent that the portion of the bill limiting the tax to \$0.30 per cigar would reduce revenues. The portion of the bill that reduces the tax rate from 20 percent to 10 percent would result in an estimated negative impact to state revenues of \$12.2 million in Fiscal Year 2023; \$14.0 million in Fiscal Year 2024; \$14.7 million in Fiscal Year 2025; \$15.5 million in Fiscal Year 2026; \$16.2 million in Fiscal Year 2027; and \$17.1 million in Fiscal Year 2028. The estimated impact on each fund is shown in the table below:

(\$ Millions)	FY23	FY24	FY25	FY26	FY27	FY28
OTP Tax (HCF)	\$ (12.1)	\$ (13.9)	\$ (14.6)	\$ (15.3)	\$ (16.1)	\$ (16.9)
Sales Tax (see below)	\$ (0.1)	\$ (0.1)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)
Total Impact	\$ (12.2)	\$ (14.0)	\$ (14.7)	\$ (15.5)	\$ (16.2)	\$ (17.1)

SUT Distribution by Fund

	FY23	FY24	FY25	FY26	FY27	FY28
GF - Unrestricted	\$ (0.05)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.07)	\$ (0.07)
GF - Restricted	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Transportation	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.03)
Local Option	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)
Other	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Total	\$ (0.13)	\$ (0.15)	\$ (0.16)	\$ (0.16)	\$ (0.17)	\$ (0.18)

These estimates assume that Item 3-5.21 of the introduced budget bill would be updated in a manner consistent with this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department of Taxation recommends the following technical amendment because the provision is only applicable to moist snuff and loose leaf tobacco and not to cigars:

Page 5, Line 124, beginning of line
Strike: Lines 124 through 127

11. Other comments:

Tobacco Products Tax

The Tobacco Products Tax is generally paid by licensed distributors based on the “manufacturer’s sales price,” which is the actual price for which a manufacturer, manufacturer’s representative, or any other person sells tobacco products to an unaffiliated distributor.

Effective July 1, 2020, Item 3-5.21 of House Bill 30 (the 2020 Appropriation Act) increased the rates of the tobacco products tax imposed under *Va. Code* § 58.1-1021.02 in effect on June 30, 2020. The current rate imposed on cigars is 20 percent of the manufacturer’s sales price. Currently, the amount of tax on each cigar is not limited.

Proposal

This bill would reduce the rate of the Tobacco Products Tax on cigars to 10 percent of the manufacturer’s sales price, not to exceed \$.30 per cigar.

As this bill would move the Tobacco Products Tax on cigars to a new code section, cigars would no longer be subject to the tax rates imposed under Item 3-5.21 of House Bill 30.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective July 1, 2022.

cc: Secretary of Finance

Date: 2/5/2022 SK
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