

## Department of Planning and Budget 2023 Fiscal Impact Statement

1. **Bill Number:** HB 1417

**House of Origin**    ☒ Introduced    ☐ Substitute    ☐ Engrossed  
**Second House**    ☐ In Committee    ☐ Substitute    ☐ Enrolled

2. **Patron:**        Ware

3. **Committee:** Finance

4. **Title:**            Cigars; modifies the statutory tax rate imposed on selling or distributing, etc

5. **Summary:** The proposed legislation modifies the statutory tax rate imposed on selling or distributing cigars by a distributor or remote retail seller by setting such rate at 10 percent of the manufacturer's sales price or \$0.30 per cigar, whichever is less. Under current law, the effective rate is 20 percent of the manufacturer's sales price due to language in the Appropriation Act which doubles the statutory rate.

6. **Budget Amendment Necessary:** Yes, Items 304, potentially § 3-5.21, and Page 1.

7. **Fiscal Impact Estimates:** Preliminary

**Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2024	\$12,100,000	General
	(\$12,100,000)	Special Dedicated
2025	\$13,600,000	General
	(\$13,600,000)	Special Dedicated
2026	\$13,800,000	General
	(\$13,800,000)	Special Dedicated
2027	\$13,800,000	General
	(\$13,800,000)	Special Dedicated
2028	\$13,800,000	General
	(\$13,800,000)	Special Dedicated
2029	\$13,800,000	General
	(\$13,800,000)	Special Dedicated
2030	\$13,800,000	General
	(\$13,800,000)	Special Dedicated

**Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2024	(\$100,000)	See Line 8
	(\$12,100,000)	Virginia Health Care Fund
2025	(\$100,000)	See Line 8
	(\$13,600,000)	Virginia Health Care Fund
2026	(\$100,000)	See Line 8
	(\$13,800,000)	Virginia Health Care Fund
2027	(\$100,000)	See Line 8

	(\$13,800,000)	Virginia Health Care Fund
	(\$100,000)	See Line 8
2028	(\$13,800,000)	Virginia Health Care Fund
	(\$100,000)	See Line 8
2029	(\$13,800,000)	Virginia Health Care Fund
	(\$100,000)	See Line 8
2030	(\$13,800,000)	Virginia Health Care Fund

- 8. Fiscal Implications:** The fiscal implications of this bill assume that the legislation removes cigars from tobacco products as it pertains to §58.1-1021.02 and therefore exempts cigars from the provisions of §3-5.21 of the Appropriation Act (Chapter 2, 2022 Virginia Acts of Assembly, Special Session I) which doubles the tax rate of “tobacco products” effective July 1, 2020.

### Virginia Department of Taxation

#### Administrative Costs

The Department of Taxation considers implementation of this bill as routine and does not require additional funding.

#### Revenue Impact

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

The provision of the bill that reduces the tax rate from 20 percent to 10 percent would result in a negative revenue impact to the Health Care Fund of \$12.1 million in Fiscal Year 2024, \$13.6 million in Fiscal Year 2025, and \$13.8 million annually thereafter. In addition, there would be an annual \$100,000 reduction in sales tax revenues, beginning in Fiscal Year 2024. It is unknown to what extent that the portion of the bill limiting the tax to \$0.30 per cigar would reduce revenues. The estimated impact on each fund is shown in the table below:

Effective July 1, 2023 (\$ Millions)

	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>
Health Care Fund	\$ (12.1)	\$ (13.6)	\$ (13.8)	\$ (13.8)	\$ (13.8)	\$ (13.8)
Sales Tax Impact	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)
<b>Total Impact</b>	<b>\$ (12.3)</b>	<b>\$ (13.8)</b>	<b>\$ (13.9)</b>	<b>\$ (13.9)</b>	<b>\$ (13.9)</b>	<b>\$ (13.9)</b>
SUT Distribution by Fund						
	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>
GF - Unrestricted	\$ (0.05)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.06)
GF - Restricted	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)
Transportation	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)
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)	\$ (0.01)
<b>Total</b>	<b>\$ (0.13)</b>	<b>\$ (0.15)</b>	<b>\$ (0.15)</b>	<b>\$ (0.15)</b>	<b>\$ (0.15)</b>	<b>\$ (0.15)</b>

**Department of Medical Assistance Services**

Item 304 C.2. of the Appropriation Act (Chapter 2, 2022 Virginia Acts of Assembly, Special Session I) requires that revenues deposited to the Virginia Health Care Fund only be used as the state share of Medicaid. As such, any actions that reduce revenue deposited to the Virginia Health Care Fund will require a dollar-for-dollar general fund increase in the Medicaid program.

**9. Specific Agency or Political Subdivisions Affected:**

Virginia Department of Taxation  
Department of Medical Assistance Services

**10. Technical Amendment Necessary:** No

**11. Other Comments:** This bill is a companion to SB 992.