

# DEPARTMENT OF TAXATION

## 2023 Fiscal Impact Statement

1. **Patron** R. Lee Ware, Jr.

3. **Committee** House Finance

4. **Title** Tobacco Products Tax; Cigars

2. **Bill Number** HB 1417

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would reduce the statutory rate of the Tobacco Products Tax on cigars from 20 percent to 10 percent of the manufacturer's sales price or \$0.30 per cigar, whichever is less. This bill would also change the definition of cigar to be the same as the Internal Revenue Code definition.

If enacted during the regular session of the 2023 General Assembly, this bill would become effective July 1, 2023.

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

Page 1, Revenue Estimates

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

#### 7b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2023-24	(\$100,000) (\$12.1 Million)	See Line 8 HCF
2024-25	(\$100,000) (\$13.6 Million)	See Line 8 HCF
2025-26	(\$100,000) (\$13.8 Million)	See Line 8 HCF
2026-27	(\$100,000) (\$13.8 Million)	See Line 8 HCF
2027-28	(\$100,000) (\$13.8 Million)	See Line 8 HCF
2028-29	(\$100,000) (\$13.8 Million)	See Line 8 HCF

## 8. Fiscal implications:

### 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>

## 9. Specific agency or political subdivisions affected:

Department of Taxation

## 10. Technical amendment necessary: No

## 11. Other comments:

### Tobacco Products Tax

Under current law, the Tobacco Products Tax is imposed on cigars, smokeless tobacco, pipe tobacco, loose leaf tobacco, liquid nicotine, and heated tobacco products. Cigars are defined as any roll of tobacco wrapped in leaf tobacco or in any substance containing tobacco other than any roll of tobacco that is a cigarette. Cigarettes are not subject to the tax on tobacco products.

Effective July 1, 2020, Item 3-5.21 of House Bill 30 (the 2020 Appropriation Act) doubled the tobacco products tax rates on all products subject to the tax. Most tobacco products, other than moist snuff, loose leaf tobacco, and liquid nicotine are subject to the tax at the rate of 20% of the manufacturer's sales price. This includes cigars.

### Proposal

This bill would reduce the statutory rate of the Tobacco Products Tax on cigars from 20 percent to 10 percent of the manufacturer's sales price or \$0.30 per cigar, whichever is less. This bill would change the definition of cigar to be the same as the Internal Revenue Code definition.

If enacted during the regular session of the 2023 General Assembly, this bill would become effective July 1, 2023.

### Similar Bills

**Senate Bill 992** is substantively identical to this bill except that it does not modify the statutory definition of cigar.

cc : Secretary of Finance

Date: 1/14/2023 SK  
HB1417F161