

**DEPARTMENT OF TAXATION  
2023 Fiscal Impact Statement**

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

3. **Committee** Senate Finance and Appropriations

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

2. **Bill Number** HB 1417

**House of Origin:**

☐ 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.

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

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

Item(s): Page 1, Revenue Estimates

304, Medicaid Program Services

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

**7a. Expenditure Impact:**

| <i><b>Fiscal Year</b></i> | <i><b>Dollars</b></i>              | <i><b>Fund</b></i> |
|---------------------------|------------------------------------|--------------------|
| 2023-24                   | \$12.1 Million<br>(\$12.1 Million) | GF<br>HCF          |
| 2024-25                   | \$13.6 Million<br>(\$13.6 Million) | GF<br>HCF          |
| 2025-26                   | \$13.8 Million<br>(\$13.8 Million) | GF<br>HCF          |
| 2026-27                   | \$13.8 Million<br>(\$13.8 Million) | GF<br>HCF          |
| 2027-28                   | \$13.8 Million<br>(\$13.8 Million) | GF<br>HCF          |
| 2028-29                   | \$13.8 Million<br>(\$13.8 Million) | GF<br>HCF          |

**7b. Revenue Impact:**

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

**8. Fiscal implications:**

Administrative Costs – Department of Taxation

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 *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:**

Department of Taxation  
Department of Medical Assistance Services

### **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.

It also removes the existing cross references under current Virginia law to the federal definitions of "cigar" and "pipe tobacco." Under current, "tobacco products" are defined to include a "cigar" as defined under Internal Revenue Code § 5702(a) and "pipe tobacco" as defined under Internal Revenue Code § 5702(n). Under this bill, "tobacco products" would still be defined to include a "cigar" and "pipe tobacco," but there would be no specified definition of what constitutes a "cigar" or "pipe tobacco."

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

cc : Secretary of Finance

Date: 1/28/2023 SK  
HB1417FH1161