

# DEPARTMENT OF TAXATION

## 2011 Fiscal Impact Statement

1. **Patron** Kenneth R. Plum

3. **Committee** House Finance

4. **Title** Cigarette Tax; Increase

2. **Bill Number** HB 1750

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would increase the Cigarette Tax rate from \$0.30 per pack to \$0.80 per pack of 20 cigarettes and would increase the tax on roll-your-own tobacco from 10% to 27% of the manufacturer's sales price.

The effective date of this bill is not specified.

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

Item(s): Page 1, Revenue Estimates

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

**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.

On November 23, 1998, leading United States tobacco product manufacturers, called participating manufacturers entered into the Master Settlement Agreement with the Commonwealth and 45 other states. Compliance with the cigarette tax must be diligently enforced to ensure a state is exempt from the application of the NPM adjustment contained in the MSA. Significant increases in cigarette and tobacco products taxes will typically lead to an increase in the evasion of taxes, which would impact TAX's

compliance efforts and may result in an increase in costs for compliance staff and resources.

### Revenue Impact

This bill would increase the total revenues designated for the Health Care Fund by approximately \$211.3 million dollars on an annual basis. Of the \$211.3 million, the tax increase on cigarettes would increase Health Care Fund revenue by approximately \$210.9 million, and the tax increase on roll-your-own tobacco would increase Health Care Fund revenue by approximately \$390,000.

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 \$2.7 million annually. Retail Sales and Use Tax revenues would increase by approximately \$10,000 due to the increase in the tax on roll-your-own tobacco. In total, this bill would decrease revenues from the Retail Sales and Use Tax by approximately \$2.7 million on an annual basis. The following chart shows the estimated revenue impact of the bill to each Fund.

<b>Revenue Impact - \$0.50 Increase in Excise Tax on Cigarettes; Increase in the Tax on Roll Your Own Tobacco from 10% to 27% (Millions of Dollars)</b>			
	<u><b>Cigarette Tax Increase</b></u>	<u><b>Roll Your Own Tax Increase</b></u>	<u><b>Total</b></u>
Health Care Fund (Excise Tax Revenues)	\$210.94	\$0.39	\$211.33
Retail Sales and Use Tax Revenues	(\$2.68)	\$0.01	(\$2.67)
General Fund- Unrestricted	(\$1.34)	\$0.00	(\$1.33)
General Fund - Restricted	(\$0.53)	\$0.00	(\$0.53)
Transportation Trust Fund	(\$0.27)	\$0.00	(\$0.27)
Local Option	(\$0.54)	\$0.00	(\$0.54)

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

Department of Taxation  
Virginia Health Care Fund

### **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 is currently ranked as having the 50th lowest cigarette tax rate in the nation (including Washington, D.C.), only Missouri is ranked lower with a cigarette tax rate of 17 cents per pack.

<b>State Excise Tax Rates on Cigarettes (Surrounding States)</b>		
<u>State</u>	<u>Tax Rate</u>	<u>Rank</u>
Kentucky	\$0.60	40
Maryland	\$2.00	11
North Carolina	\$0.45	45
South Carolina	\$0.57	42
Tennessee	\$0.62	39
<b>Virginia</b>	<b>\$0.30</b>	<b>50</b>
West Virginia	\$0.55	44
Dist. Of Columbia	\$2.50	9

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

Under current law, all revenues from the Cigarette Tax and the tax on roll-your-own tobacco are deposited into the Health Care Fund. The federal government matches state funds spent on Medicaid, based on a state's federal medical assistance percentage (FMAP) match rate. The FMAP determined for each state has a statutory minimum of 50 percent and maximum of 83 percent; although Medicaid expenditures for some selected services and supports are matched at a higher rate for all states.

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.

#### Proposal

This bill would increase the Cigarette Tax rate from \$0.30 per pack to \$0.80 per pack of 20 cigarettes and would increase the tax on roll-your-own tobacco from 10% to 27% of the manufacturer's sales price.

The effective date of this bill is not specified.

#### Similar Legislation

**House Bill 1815** would increase the Cigarette Tax rate from \$0.30 per pack to \$1.45 per pack of 20 cigarettes and would increase the tax on roll-your-own tobacco from 10% to 50% of the manufacturer's sales price. The bill also increases the tax rate on certain other tobacco products from 10% to 50% of the manufacturer's sales price.

**House Bill 2038** and **Senate Bill 1085** would require local governing bodies to adopt ordinances that adhere to guidelines and rules established by the Department of Taxation related to cigarette tax enforcement.

**House Bill 2138** would authorize all counties, cities and towns to impose a local cigarette tax. Any cigarette tax authorized by this bill would be limited to 5 cents per pack or the amount levied under state law, whichever is greater.

cc : Secretary of Finance

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