

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0028-01
Bill No.: HB 181
Subject: Revenue Dept., Taxation and Revenue - General, Tobacco Products
Type: Original
Date: March 18, 2011

Bill Summary: Would increase the excise tax on cigarettes from 17 cents to 33 cents per pack of 20 cigarettes to be deposited, less a 3% collection fee, into the General Revenue Fund.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$66,900,000	\$80,300,000	\$80,300,000
Total Estimated Net Effect on General Revenue Fund	\$66,900,000	\$80,300,000	\$80,300,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would increase the tax on the sale of cigarettes from 8 ½ mills to 16 ½ mills per cigarette. The revenue generated by the additional eight (8) mills, less three percent for collection, would be deposited in General Revenue. DOR would need to make forms changes, and DOR and ITSD-DOR would need to make programming changes.

DOR officials stated that 550 million stamps were sold during FY 2010 and assume that after deducting the three percent (3%) allowed for collection, the increase would generate approximately \$85.4 million a year for the General Revenue Fund. DOR officials assumed there would be a need to notify approximately 120 cigarette wholesales of the rate increase. DOR officials assumed there would also be a need to notify retailers of the rate increase but were not sure how all retailers would be reached as they are not required to be licensed.

DOR officials stated that this proposal could present an opportunity for big retailers to stockpile product to try and reap a windfall when the tax rate changes but were not able predict whether there would be decreased revenue from stockpiling product in advance of the increase, or whether the increase in tax would contribute to a loss of sales.

The DOR response included a cost estimate of \$61 for postage to notify wholesalers but did not include an estimate of the cost to make program or forms changes or an estimate of the IT cost to implement the proposal.

Oversight assumes that any DOR cost to implement the proposal would be minimal and could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are enacted which increase DOR costs, resources could be requested through the budget process.

Officials from the **Department of Health and Senior Services** and the **Department of Public Safety, Division of Alcohol and Tobacco Control** assume this proposal would have no fiscal impact to their organizations.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

BAP officials state that the proposal would increase the cigarette tax from 8.5 mills per cigarette (\$0.17 per pack) to 16.5 mills per cigarette (\$0.33 per pack.), with the new revenues deposited into the general revenue fund. BAP officials calculated the impact of the tax increase by estimating the quantity of packs currently sold, applying the midpoint formula for elasticity to estimate the new quantity of packs, and then calculating increased revenues.

1. BAP assumed the current retail price of cigarette pack is $(\$3.83 + 0.17 \text{ tax}) = \4 .
2. BAP noted that the federal Centers for Disease Control and Prevention (CDC) had estimated a 4% reduction in sales for each 10% increase in cigarette cost. BAP also cited research which indicated that increased prices would result in revenue losses due to cross-border and internet sales, and BAP assumed those factors would result in an additional 4% sales reduction for each 10% increase in price.
3. The BAP estimate was \$80.3 million in additional revenues, excluding any additional retail sales tax impact.

Oversight will use the BAP estimate of additional revenues for this proposal. Oversight notes that sales of cigarettes and other tobacco products could be influenced by factors other than the rate of state taxation, and that projections based on past activity may not be an indication of future activity. Since the proposal would become effective August 28, 2011, the impact for FY 2012 would be approximately 10/12 of the impact for a full year or \$66.9 million.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue increase - cigarette tax</u>	<u>\$66,900,000</u>	<u>\$80,300,000</u>	<u>\$80,300,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$66,900,000</u>	<u>\$80,300,000</u>	<u>\$80,300,000</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2012 (10 Mo.)	 FY 2013	 FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would increase the excise tax on cigarettes from 17 cents to 33 cents per pack.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of Administration
 Division of Budget and Planning
Department of Health and Senior Services
Department of Public safety
 Division of Alcohol and Tobacco Control
Department of Revenue



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