

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0435-01
Bill No.: HB 859
Subject: Tobacco Products, Taxation and Revenue - Sales and Use
Type: Original
Date: March 23, 2011

Bill Summary: Would increase the excise tax on cigarettes by 12.5 cents per pack per year for eight years until the additional tax on cigarettes reaches \$1.00.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$63,200,000	\$123,400,000	\$180,900,000
Total Estimated Net Effect on General Revenue Fund	\$63,200,000	\$123,400,000	\$180,900,000

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 **Office of the Secretary of State (SOS)** assume that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Revenue (DOR)** assume this proposal would not have a fiscal impact on their organization but would result in an increase in general revenue. DOR officials estimated that total state revenue would increase by approximately \$66 million in 2012 and up to \$533 million in 2019 and after.

The additional excise tax would be imposed as follows:

- * For 2012, six and one-fourth mills per cigarette;
- * For 2013, twelve and one-half mills per cigarette;
- * For 2014, eighteen and three-fourths mills per cigarette;
- * For 2015, twenty-five mills per cigarette;
- * For 2016, thirty-one and one-fourth mills per cigarette;
- * For 2017, thirty-seven and one-half mills per cigarette;
- * For forty-three and three-fourths mills per cigarette; and
- * For all years beginning on or after January 1, 2019, fifty mills per cigarette.

The revenue generated by the additional tax imposed under this subsection, less a three percent deduction for collection would be deposited in the state General Revenue Fund. DOR would need to make forms changes each year, and DOR and ITSD-DOR would need to make changes to various processing systems.

ASSUMPTION (continued)

Based on the 550 million stamps sold during FY 2010, and after deducting the 3% collection charge, DOR officials estimate the tax increase would generate additional revenues as follows:

- * 2012 - \$66.7 million,
- * 2013 - \$133.4 million,
- * 2014 - \$200.1 million,
- * 2015 - \$266.7 million,
- * 2016 - \$333.4 million,
- * 2017 - \$400.1 million,
- * 2018 - \$466.8 million, and
- * 2019 and following years \$533.5 million.

DOR officials stated that they are not able to determine if the increase in tax would contribute to a loss of sales, or if there would be decreased revenue from stockpiling product in advance of the increase if no floor stock tax is enacted. DOR officials also stated that they would need to notify 120 cigarette wholesales of the rate change each year. (120 mailings x \$0.505 = \$60.60)

Oversight assumes that any DOR costs would be minimal and could be absorbed with existing resources.

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

Although they did not respond to our request for information, officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a similar proposal (HB 343 LR 0050-01) would not result in additional costs or savings to their organization.

The proposal would the cigarette tax from 8.5 mills per cigarette (\$0.17 per pack) by an additional 6.25 mills per cigarette (\$0.125 per pack) each year, beginning with 2012 through 2019; the new revenues would be deposited into the General Revenue Fund. BAP 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, then calculating increased revenues. Based on the analysis below, BAP estimates this proposal would ultimately increase general revenues by \$433.8 million.

ASSUMPTION (continued)

1. BAP assumed the current retail price of cigarette pack is (\$3.83 + 0.17 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 of additional revenues, excluding any additional retail sales tax impact follows.
 - * 2012 \$63.2 million
 - * 2013 \$123.4 million
 - * 2014 \$180.9 million
 - * 2015 \$235.8 million

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.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Revenue increase - cigarette tax	<u>\$63,200,000</u>	<u>\$123,400,000</u>	<u>\$180,900,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$63,200,000</u>	<u>\$123,400,000</u>	<u>\$180,900,000</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 by 12.5 cents per pack per year for eight years until the additional tax on cigarettes reaches \$1.00.

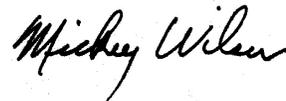
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Public safety
Office of the Director
Division of Alcohol and Tobacco Control
Department of Revenue

NOT RESPONDING

**Office of the Secretary of State
Office of Administration
Division of Budget and Planning**



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Director
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