

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 119** HLS 15RS 342
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action: **w/ SEN COMM AMD**
 Proposed Amd.:
 Sub. Bill For.:

| | | |
|--------------------------------------|---------|-------------------------------|
| Date: June 3, 2015 | 7:50 PM | Author: RITCHIE |
| Dept./Agy.: Revenue | | Analyst: Greg Albrecht |
| Subject: Tobacco Tax Increase | | |

TAX/TOBACCO TAX EG1 +\$162,700,000 RV See Note Page 1 of 1
 Levies an additional tax on cigarettes

Proposed law increases the tax on cigarettes by 64¢ per 20-pack, to a new tax rate of \$1.00 per 20-pack. Taxes on other tobacco products are increased, as well. The tax rates on cigars increase from 8% and 20% of invoice price to 10% and 25%, respectively. "Little cigar" products are defined and subjected to the same tax basis and rate as cigarettes. The tax rates on smoking and smokeless tobacco are increased from 33% and 20% of invoice price to 50% and 25%, respectively. Moist snuff is defined and subjected to a tax rate of the higher of 20% of invoice price or 60¢ per 1.2 ounce can. Vapor products and electronic cigarettes are defined and subjected to a tax of 5¢ per milliliter of nicotine liquid. Inventories of stamps and stamped products are subject to the tax increases proposed by this bill.

Proposed law also creates the Tobacco Tax Medicaid Match Fund to receive the avails of the cigarette tax increase levied by this bill. Monies in the fund are to be used to support the medicaid program, and shall not supplant existing general fund resources. Receipts from the tax increases on other tobacco products flow to the state general fund. Effective July 1, 2015.

| EXPENDITURES | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 5 -YEAR TOTAL |
|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------------|
| State Gen. Fd. | \$70,000 | \$70,000 | \$70,000 | \$70,000 | \$70,000 | \$350,000 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$70,000 | \$70,000 | \$70,000 | \$70,000 | \$70,000 | \$350,000 |

| REVENUES | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 5 -YEAR TOTAL |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| State Gen. Fd. | \$17,700,000 | \$17,700,000 | \$17,700,000 | \$17,700,000 | \$17,700,000 | \$88,500,000 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$145,000,000 | \$145,000,000 | \$145,000,000 | \$145,000,000 | \$145,000,000 | \$725,000,000 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$162,700,000 | \$162,700,000 | \$162,700,000 | \$162,700,000 | \$162,700,000 | \$813,500,000 |

EXPENDITURE EXPLANATION

In the past, the Department of Revenue has indicated that it will incur one-time costs to notify affected taxpayers of the tax rate increases, to revise tax forms, and make tax system programming changes. In addition, these relatively large tax rate increases may warrant enhancements of security features of tax stamps to deter counterfeiting, entailing a recurring cost increase for more expensive tax stamps. Security measures are estimated to be at least \$70,000 per year. Additional workload costs to modify the tax system and educate taxpayers will add costs in FY16.

REVENUE EXPLANATION

The bill increases all the various tobacco tax components, as well as changing the tax basis of certain products and imposing a new tax on vapor products & electronic cigarettes. In addition, inventories on hand are subject to the bill's tax increases. The bill as a whole generates additional revenue, estimated at \$162.7 million. The components of this additional revenue are: cigarettes \$135 million and inventories \$10 million deposited to the Tobacco Tax Medicaid Match Fund newly created by this bill, cigars (other than Little Cigars) \$2.8 million, Little Cigars \$2.8 million, smoking tobacco \$1.2 million, smokeless tobacco (other than moist snuff) \$1.6 million, moist snuff \$6.3 million, vapor products and electronic cigarettes \$1 million, and other tobacco products inventories \$2 million. The \$17.7 million of revenue generated from other tobacco products flows to the state general fund.

Revenue from cigarettes is estimated as the average of two approaches that attempt to account for the negative tax-paid purchase response; a calculation encompassing average prices, state & local sales taxes, industry markups, and a cross-border/single-state rate change purchaser response, and an approach that adjusts a simple average yield extrapolation for what has actually happened with past state tax increases.

Revenue from other tobacco products was estimated combining an extrapolation of actual FY14 collections and detailed information from an industry consultant. Negative behavioral responses have not been as strong with regard to other tobacco products as has been evident with cigarettes, but industry data incorporated a 3% response and extrapolations of two year old collections data (relative to the FY16 effective year) without growth impose a small negative response into the estimates.

NOTE: As a result of the negative behavioral response in the cigarette portion of the bill, two existing dedications of cigarette tax receipts actually decline. The Tobacco Tax Health Care Fund loses approximately \$3.2 million, while the Tobacco Regulation Enforcement Fund loses approximately \$66,000, from what would be the case in the absence of this bill. These dedications are funded on an average yield basis that declines as the tax rate increases and tax-paid purchases decline.

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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