



**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**

Fiscal Note On: **HB 118** HLS 17RS 637  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 12, 2017 3:00 PM	<b>Author:</b> HOFFMANN
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Tobacco Tax Increase	

TAX/TOBACCO TAX OR +\$52,600,000 GF RV See Note Page 1 of 1  
 Levies an additional state excise tax on cigarettes

Present law imposes an excise tax on cigarettes of \$1.08 per 20-pack.

Proposed law increases the tax on cigarettes by 22¢ per 20-pack, to a new tax rate of \$1.30 per 20-pack. Inventories of stamps and stamped products are not subject to the tax increase proposed by this bill. Taxes on all other tobacco products are unchanged.

Effective for the period beginning July 1, 2017.

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$52,600,000	\$52,600,000	\$52,600,000	\$52,600,000	\$52,600,000	<b>\$263,000,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	(\$5,500,000)	(\$5,500,000)	(\$5,500,000)	(\$5,500,000)	(\$5,500,000)	<b>(\$27,500,000)</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$47,100,000</b>	<b>\$47,100,000</b>	<b>\$47,100,000</b>	<b>\$47,100,000</b>	<b>\$47,100,000</b>	<b>\$235,500,000</b>

**EXPENDITURE EXPLANATION**

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (\$31,000 in this case). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

**REVENUE EXPLANATION**

The state cigarette tax was increased in 1990, 2000, 2002, 2015, and 2016, and the federal tax was increased in 2009. In each of the previous cases, the additional collections were less than the simple average yield of 1¢ of tax implied (prior to the tax rate increase). The increase in monthly tax receipts resulting from the latest two increases appear to be normalizing, and are utilized to estimate the tax increase proposed by this bill. In the last two state episodes combined (2015 & 2016), the new collections level appears to be only about 85% of what would be implied from the simple average yield prior to the latest tax rate increases. That is, total tax-paid sales decline when prices increase (in these cases from a tax increase) as consumers avoid the tax by purchasing the product in lower tax locales and reduce real consumption of the product altogether. A simple calculation of revenue gain based on the average yield of 1¢ of tax prior to this bill's proposed tax increase would result in an anticipated annual gain of some \$58.9 million in the full year of FY18 from the cigarette tax increase proposed in this bill. However, this assumes no negative behavioral response on the part of consumers.

Prior to the tax increase proposed by this bill, Texas and Arkansas had higher current tax rates of \$1.41/pack and \$1.15/pack, respectively, and Mississippi has a lower rate of 68¢ per pack, than Louisiana's current \$1.08/pack tax rate. These tax rate differentials may have generated sales and tax receipts in Louisiana from neighboring Texas and Arkansas residents, and resulted in lost sales and tax receipts to Mississippi sellers. The tax rate increase proposed by this bill may work to negate some portion of these possible effects with respect to these neighboring states. Additional internet sales may also reduce the revenue gain potential from the bill. The last two tax rate increases have only recently appeared to normalize to a new typical amount of collections, on a both monthly and per-1¢ of tax basis, and uncertainty still exists as to the magnitude of the effects of those two rate increases, as well as the one proposed by this bill. With that uncertainty in mind, the simple average yield calculation above is discounted by 20% to account for tax-paid purchase response, resulting in an estimate of \$47.1 million per full year from the tax rate increase proposed by this bill. The bill has an effective date of July 1, 2017, and does not impose its rate increase on inventories. Thus, stockpiling may enhance FY17 collections and diminish FY18 collections somewhat, before receipts stabilize to a new annual norm in FY18. Evidence of that wholesaler behavioral response has not yet been observed, and is not accounted for in the estimate above.

NOTE: As a result of the negative behavioral response to cigarette tax increases, existing dedications of cigarette tax receipts actually decline. These dedications are funded on the basis of the average yield of each penny of cigarette tax, and the average yield declines as the tax rate increases and tax-paid purchases decline. Based on the Dept's allocation method, the Tobacco Tax Medicaid Match Fund loses \$4.2M, the Tobacco Tax Health Care Fund loses \$1 million, the Health Excellence Fund loses \$336,000, and the Tobacco Regulation Enforcement Fund loses \$21,000; all from what would be the case in the absence of this bill. Total dedicated fund losses are \$5.5 million.

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| <u>Senate</u>  | <u>Dual Referral Rules</u> | <u>House</u>   |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}                  |                            | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {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} |

**John D. Carpenter**  
**Legislative Fiscal Officer**