



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 77** HLS 15RS 343
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.: **REVISED**

Date: March 31, 2015 10:36 AM	Author: RITCHIE
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Tobacco Tax Increase	

TAX/TOBACCO TAX OR +\$250,000,000 GF RV See Note Page 1 of 2
 (Constitutional Amendment) Levies an additional tax on cigarettes

Current law imposes an excise tax on cigarettes of 36¢ per 20-pack.

Proposed law increases the tax on cigarettes by \$1.18 per 20-pack, to a new tax rate of \$1.54 per 20-pack. Taxes on all other tobacco products are unchanged.

To be submitted to the electors at the statewide election on October 24, 2015. Effective January 1, 2016.

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.	\$125,000,000	\$250,000,000	\$250,000,000	\$250,000,000	\$250,000,000	\$1,125,000,000
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	\$125,000,000	\$250,000,000	\$250,000,000	\$250,000,000	\$250,000,000	\$1,125,000,000

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

Tobacco taxes on cigarettes currently make up approximately 80% of total tobacco tax collections. The state cigarette tax was increased in 1990, 2000, and 2002, and the federal tax was increased in 2009. In each of those cases additional collections were less than the simple average yield of 1¢ of tax (prior to the tax rate increase) implied. In the last state episode (2002), the new collections level was only about 82% of what would be implied from the simple average yield, and only 54% with the last federal episode (2009). 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 current average yield of 1¢ of existing tax would result in an anticipated annual gain of some \$367 million in FY16 from the cigarette tax increase proposed in this bill. However, this assumes no purchase response on the part of consumers. A somewhat more complicated calculation encompassing average prices, state & local sales taxes, industry markups, and a cross-border/single-state rate change purchaser response results in an anticipated annual gain of some \$255 million in FY16. Adjusting the simple average yield calculation above for what has actually happened with past state tax increases compared to the simple average yield expectation at the time can result in a revenue gain of \$246 million (with considerable variation, actual gains from past state tax increases have averaged 33% less than an average yield would suggest, and incorporating the federal tax increase, 36% less).

Previous state tax increases were individually relatively small (4¢, 4¢, and 12¢, respectively; percent increases of 25%, 20%, and 50%) compared to the \$1.18 increase of this bill (more than quadrupling the current tax), while the federal increase was relatively large at 61.66¢ (158%). Texas, Arkansas, and Mississippi all have higher current tax rates of \$1.41/pack, \$1.15/pack, and 68¢/pack, respectively. These tax rate differentials may have generated sales and tax receipts in Louisiana from neighboring state residents. The tax rate increase proposed by this bill will work to negate this effect with respect to all three neighboring states. Additional remote sales and other tax avoidance behaviors may also reduce the revenue gain potential from the bill. With less than certainty as to the magnitude of these effects under this bill's tax increase, an average of the two calculations above that attempt to account for tax-paid purchase response is utilized for the bill's cigarette tax increase : \$250 million per full year, adjusted to \$125 million in the second half of FY16, given an effective date of 1/1/2016. Stockpiling and work-off effects may boost FY15 receipts and suppress FY16 receipts. See page 2 for this discussion.

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| Senate | <u>Dual Referral Rules</u> | House |
| <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 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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CONTINUED EXPLANATION from page one:

Stockpiling and work-off effects may boost FY15 receipts and suppress FY16 receipts, even though this particular bill is not effective until January 1, 2016.

Tax rate changes that do not apply to current inventories can elicit wholesaler stockpiling and work-off behavior that distorts monthly collections pattern, requiring adjustment to estimates for particular fiscal years (stockpiling prior to the effective date of the tax rate increase, worked off in the period after the effectiveness of the rate increase). The effective date of this bill (midway through FY16) works to make stockpiling and work-off effects less likely from the fiscal year's perspective since that wholesaler behavior may occur entirely within a single fiscal year (FY16 in this case). However, this considers this bill in isolation, but a tobacco tax increase has been discussed in numerous forums with respect to funding the FY16 budget. The threat of a tax hike may be credible in general from other proposals, even if this bill is ultimately the instrument that implements a tobacco tax increase. Thus, the stockpiling and work-off effects may occur across fiscal years FY15 and FY16 even though this particular bill is not effective until January 1, 2016.

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|--|----------------------------|--------------|--|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> | <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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Senate

Dual Referral Rules

House

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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