

FISCAL NOTE

Bill #: SB119

Title: Increase cigarette tax and revise distribution

Primary

Sponsor: Dale Berry

Status: Second Reading

Sponsor signature

Date

Chuck Swysgood, Budget Director

Date

Fiscal Summary

| | <u>FY2002</u> <u>Difference</u> | <u>FY2003</u> <u>Difference</u> |
|--|--|--|
| Revenue: | | |
| General Fund | \$(7,324,337) | \$(7,271,019) |
| State Special Revenue (Schools) | \$18,876,595 | \$18,738,331 |
| Capital Projects Fund (LRBP) | \$1,028,256 | \$1,020,724 |
| State Special Revenue (DPHHS) | \$323,544 | \$321,174 |
| Net Impact on General Fund Balance: | \$(7,324,337) | \$(7,271,019) |

| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| | X | Significant Local Gov. Impact | | X | Technical Concerns |
| | X | Included in the Executive Budget | X | | Significant Long-Term Impacts |
| | X | Dedicated Revenue Form Attached | X | | Family Impact Form Attached |

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, the cigarette tax rate is \$0.18 per pack.
2. Under this proposal, the cigarette tax rate is increased to \$0.40 per pack.
3. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to DPHHS.
4. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 81.56% to the state special revenue fund for state equalization aid; 11.85% to the Long-Range Building Program Account; and 6.59% to the Department of Public Health and Human Services(DPHHS).
5. The impacts of the cigarette tax rate increase to \$0.40 per pack will generate new net revenue of \$12,328,285 in fiscal 2002 and \$12,237,985 in fiscal 2003. The new net revenue will **decrease** the state general fund by \$7,900,111 in fiscal 2002 and \$7,842,245 in fiscal 2003; and increase revenue going to the Long-Range Building Program Account by \$1,028,256 in fiscal 2002 and \$1,020,724 in fiscal 2003; and the Department of Public Health and Human Services by \$323,544 in fiscal 2002 and \$321,174 in

(continued)

fiscal 2003. The state special revenue fund for state equalization aid will receive \$18,876,595 in fiscal 2002 and \$18,738,331 in fiscal 2002.

6. The impact in assumption #5 is calculated using a model developed by the Department of Revenue (DOR). The DOR cigarette tax revenue estimate under current law for fiscal years 2002 and 2003 is used as the base. In addition to DOR's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. Given a base cost of \$2.61 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.17%.
7. Under current law, the tobacco products tax rate is 12.5% of the wholesale price.
8. Under this proposal, the tobacco products tax rate is increased to 27% of the wholesale price, excluding moist snuff, which currently comprises 85% of tobacco product sales (in dollars) other than cigarettes.
9. Under this proposal, moist snuff will be taxed \$0.33 an ounce.
10. Under current and proposed law, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
11. The impacts of the tobacco products tax rate increase to 27% of the wholesale price, *excluding moist snuff*, will decrease net revenue going to the state general fund by \$1,514,749 in fiscal 2002 and \$1,623,773 in fiscal 2003. Segregating moist snuff, see #14, offsets additional revenue from tax increase.
12. The above impact in assumption eleven is calculated using a model developed by the DOR. The DOR tobacco tax revenue estimate under current law for fiscal years 2002 and 2003 is used as the base. In addition to DOR's base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. A wholesale list price before taxes of \$2.43 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.
13. Under this proposal, moist snuff has a tax rate of \$0.33 an ounce. Revenues from this tax, after tribal revenue sharing payments, are distributed 100% to the state general fund.
14. The tax on moist snuff will generate \$2,090,523 in fiscal 2002 and \$2,194,999 in fiscal 2003.
15. This proposal has no impact on Department of Revenue administrative expenses.

FISCAL IMPACT:

| <u>Revenues:</u> | <u>FY2002 Difference</u> | <u>FY2003 Difference</u> |
|---------------------------------|------------------------------|------------------------------|
| General Fund | \$(7,324,337) | \$(7,271,019) |
| State Special Revenue (Schools) | \$18,876,595 | \$18,738,331 |
| Capital Projects Fund (LRBP) | \$1,028,256 | \$1,020,724 |
| State Special Revenue (DPHHS) | \$323,544 | \$321,174 |

Net Impact to Fund Balance (Revenue minus Expenditure):

| | | |
|---------------------------------|---------------|---------------|
| General Fund | \$(7,324,337) | \$(7,271,019) |
| State Special Revenue (Schools) | \$18,876,595 | \$18,738,331 |
| Capital Projects Fund (LRBP) | \$1,028,256 | \$1,020,724 |
| State Special Revenue (DPHHS) | \$323,544 | \$321,174 |

LONG-RANGE IMPACTS:

This proposal has significant long-range impact to the state general fund, the Long-Range Building Program Account, and the Department of Public Health and Human Services state special revenue account and the school equalization aid account. Revenue going to these accounts/funds except for the state general fund will be larger than under current law for fiscal years beyond the 2003 biennium. The state general fund will no longer receive revenue from the cigarette tax.