



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 304 HLS 13RS 899
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 14, 2013 4:16 PM Author: TALBOT
Dept./Agy.: Revenue Analyst: Greg Albrecht
Subject: Tobacco Tax Increase

TAX/TOBACCO TAX OR +\$57,000,000 GF RV See Note Page 1 of 1
Increases the state tax levied on cigarettes

Current law imposes an excise tax on cigarettes of 36¢ per 20-pack. Tax rates on other tobacco products are: cigars at 8% - 20% of manufacturers invoice price, 33% for smoking tobacco, and 20% for smokeless tobacco.

Proposed law increases the tax rate on cigarettes by 24¢ per 20-pack (to a new tax rate of 60¢ per 20-pack. The taxes on all other tobacco products are unchanged.

Effective upon enactment of unspecified legislation introduced in this session.

Table with 7 columns: EXPENDITURES/REVENUES, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

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. Rough estimates of these costs in the past have totaled \$150,000 initially, and \$75,000 per year thereafter. Initial costs are likely to be incurred in FY14.

REVENUE EXPLANATION

Tobacco taxes on cigarettes currently make up approximately 81% 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 55% 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 tax would result in an anticipated annual gain of some \$76 million in FY14 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 or state-only purchaser response of -.98 results in an anticipated annual gain of some \$62 million in FY14. 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 as little as \$51 million (actual gains have averaged 33% less than an average yield would suggest, but with considerable variation).

Previous state tax increases were individually relatively small (4¢, 4¢, and 12¢, respectively; percent increases of 25%, 20%, and 50%) compared to the 32¢ increase of this bill (nearly doubling 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 are likely to have generated sales and tax receipts in Louisiana from neighboring state residents. The tax rate increase proposed by this bill will work to reduce this effect with respect to all three border states. Additional internet sales may also reduce the revenue gain potential from the bill. Without much certainty as to the magnitude of these effects under this bill's tax increase, an average of the two calculations above that account for purchase response is utilized for the bill's cigarette tax increase: \$57 million per full year. The bill appears to be effective for all of FY14. Should wholesaler stockpiling occur, some revenue gain would accrue to FY13 and less revenue would be gained in FY14 as tax stamp inventories are worked off. Normal annual collections would resume in FY15.

- Senate Dual Referral Rules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} 6.8(F) >= \$500,000 Annual Fiscal Cost {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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Legislative Fiscal Officer