

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



Fiscal Note On: **HB 119** HLS 15RS 342  
 Bill Text Version: **ENROLLED**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> June 12, 2015 3:20 PM	<b>Author:</b> RITCHIE
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Tobacco Tax Increase	

TAX/TOBACCO TAX EN +\$106,400,000 SD RV See Note Page 1 of 1  
 Levies an additional tax on cigarettes

Proposed law increases the tax on cigarettes by 50¢ per 20-pack, to a new tax rate of 86¢ per 20-pack. Vapor products are defined and subjected to a tax of 5¢ per milliliter of consumable nicotine solution. Other tobacco products and inventories are not affected.  
Proposed law also creates the Tobacco Tax Medicaid Match Fund to receive the avails of the tobacco tax increases 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. Effective July 1, 2015.

<b>EXPENDITURES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	<b>\$350,000</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	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$70,000</b>	<b>\$70,000</b>	<b>\$70,000</b>	<b>\$70,000</b>	<b>\$70,000</b>	<b>\$350,000</b>

  

<b>REVENUES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</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	\$106,400,000	\$107,400,000	\$107,400,000	\$107,400,000	\$107,400,000	<b>\$536,000,000</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$106,400,000</b>	<b>\$107,400,000</b>	<b>\$107,400,000</b>	<b>\$107,400,000</b>	<b>\$107,400,000</b>	<b>\$536,000,000</b>

**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 generates an estimate of \$106.4 million in FY16 of additional tobacco tax revenue, with \$1 million of this associated with vapor products. Tax receipts from vapor products ramp up to \$2 million in FY17 and beyond. These additional tax receipts flow to the Tobacco Tax Medicaid Match Fund newly created by the bill.

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 vapor products is estimated on the basis estimates by the North Carolina Department of Revenue, pro-rated to Louisiana by population and then halved to acknowledge the fact that this will be an entirely new area of taxation for the Department of Revenue.

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 \$2.2 million, while the Tobacco Regulation Enforcement Fund loses approximately \$46,000, from what would be the case in the absence of this bill. These dedications are funded on the basis of the average yield cigarette taxes, and the average yield declines as the tax rate increases and tax-paid purchases decline. The loss to these two dedications is not included in the table above.

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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} |

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