



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 3 HLS 161ES 40
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 15, 2016 7:51 PM
Dept./Agy.: Revenue
Subject: Tobacco Tax Increase
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TAX/TOBACCO TAX OR +\$46,000,000 GF RV See Note Page 1 of 1
Levies an additional tax on cigarettes (Item #4)

Current law imposes an excise tax on cigarettes of 86¢ per 20-pack.

Proposed law increases the tax on cigarettes by 22¢ per 20-pack, to a new tax rate of \$1.08 per 20-pack. Inventories of stamps and stamped products are subject to the tax increase proposed by this bill. Taxes on all other tobacco products are unchanged.

Effective for the period beginning April 1, 2016.

Table with 7 columns: EXPENDITURES/REVENUES, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 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, a relatively high tax rate 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 state cigarette tax was increased in 1990, 2000, and 2002 and the federal tax was increased in 2009. The state tax was also increased in 2015, but the increase in monthly tax receipts resulting from that latest increase has not yet normalized, and is not utilized to estimate the tax increase proposed by this bill. 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). In the last fully normalized 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 average yield of 1¢ of tax prior to the 2015 tax increase would result in an anticipated annual gain of some \$67 million in the full year of FY17 from the cigarette tax increase proposed in this bill. However, this assumes no negative 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 done for the 2015 tax increase analysis, applied proportionately to the tax increase proposed by this bill results in an anticipated annual gain of some \$47 million in FY17. 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 results in a full-year revenue gain of \$45 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 22¢ increase of this bill while the federal increase was relatively large at 61.66¢ (158%). Prior to the 2015 50¢ tax increase and the one proposed by this bill, Texas, Arkansas, and Mississippi all had 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 in 2015 and the one proposed by this bill will likely work to negate some portion of this effect with respect to these neighboring 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 the 2015 tax increase and the one proposed by this bill, an average of the two calculations above that attempt to account for tax-paid purchase response is utilized for the bill's base cigarette tax increase of \$46 million per full year. With the taxation of inventories and an effective date of April 1, 2016, estimated receipts in the remainder of FY16 are \$16 million, and in subsequent fiscal years approximately \$46 million.

Senate Dual Referral Rules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}
6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Legislative Fiscal Officer