

FISCAL NOTE

SB 1394 - HB 1193

March 1, 2007

SUMMARY OF BILL: Increases the tax rate on liquor from \$4.40 to \$4.50 per gallon; Increases the tax rate on wine from \$1.21 to \$1.31 per gallon; Increases the tax rate on cigarettes from 20 cents to 30 cents per pack.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - \$2,407,000 / General Fund
\$59,946,000 / Education Fund
\$14,000 / Department of Revenue
\$35,000 / Sinking Fund

Increase State Expenditures - \$6,000 One-Time
\$50,000 Recurring

Increase Local Govt. Revenues - \$1,682,000

Liquor and Wine Tax Assumptions:

- Liquor tax collections are estimated to be \$32,481,000 for FY07-08.
- Gallons of liquor sold in FY07-08 is estimated to be 7,382,045 gallons (\$32,481,000 ÷ \$4.40 = 7,382,045 gallons).
- The increase to state revenues resulting from the proposed tax increase to liquor is estimated to be \$738,000 (7,382,045 gallons X \$0.10 = \$738,205).
- Wine tax collections are estimated to be \$10,080,000 for FY07-08.
- Gallons of wine sold in FY07-08 is estimated to be 8,330,578 gallons (\$10,080,000 ÷ \$1.21 = 8,330,578 gallons).
- The increase to state revenues resulting from the proposed tax increase to wine is estimated to be \$833,000 (8,330,578 X \$0.10 increase = \$833,058).
- Total tax increase for liquor and wine is estimated to be \$1,571,000 (\$738,000 liquor + \$833,000 wine = \$1,571,000 total).
- 82.5% of liquor and wine tax is apportioned to the General Fund; the remaining 17.5% is apportioned to local governments.
- Approximately \$1,296,000 of the increase will be apportioned to the General Fund; \$275,000 would be apportioned to local governments.

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Cigarette Tax Assumptions:

- According to the Department of Revenue (DOR), excise tax collections on cigarettes in FY05-06 were approximately \$115,462,000.
- Current excise tax rate on cigarettes is \$0.20 per pack.
- Estimated number of packs sold in FY05-06 was 577,310,000 ($\$115,462,000 \div \$0.20 = 577,310,000$ packs).
- Cigarette elasticity is estimated from a variable elasticity schedule depending upon the extent of any excise tax increase.
- Cigarette elasticity rate for proposed increase is estimated to be -0.051.
- Current state sales tax rate on cigarettes is 7.00%.
- Local option sales tax rate on cigarettes is estimated to average 2.25%.
- Current consumer price per pack is estimated to be \$3.19 per pack (excluding sales tax); \$3.49 per pack (including sales tax).
- Increasing the excise tax on cigarettes by \$0.10 per pack would also generate an additional \$0.01 per pack in state and local option sales tax revenue ($\$0.10 \times 9.25\% = \0.009).
- The total price increase to the consumer is estimated to be \$0.11 per pack ($\0.10 excise tax increase + $\$0.01$ incremental sales tax = $\$0.11$).
- Consumer price per pack after the proposed excise tax increase is estimated to be \$3.29 per pack (excluding sales tax); \$3.60 per pack (including sales tax).
- Increasing the excise tax on cigarettes would increase the price per pack to the consumer by an estimated 3.15% ($\$0.11 \div \$3.49 = 3.15\%$).
- Quantity demanded would decrease by an estimated 0.16% (3.15% price increase \times -0.051 elasticity rate = -0.16%).
- Quantity demanded in FY07-08 is estimated to be 576,386,304 packs ($577,310,000 \times \{100.00\% - 0.16\%\} = 576,386,304$).
- Total excise tax collections are estimated to be \$172,916,000 ($576,386,304$ packs \times $\$0.30$ excise tax = $\$172,915,891$) in FY07-08.
- Incremental excise tax collections are estimated to be \$57,454,000 ($\$172,916,000 - \$115,462,000 = \$57,454,000$) per year.
- 100% of the estimated \$57,454,000 in incremental excise tax collections would be apportioned exclusively for education.
- Sales tax collections will increase because sales tax is computed on the final retail sale.
- Retail sales before the proposed excise tax increase are estimated to be \$1,841,619,000 ($577,310,000$ packs \times $\$3.19$ old price (excluding sales tax) = $\$1,841,618,900$).
- Retail sales after the proposed excise tax increase are estimated to be \$1,896,311,000 ($576,386,304$ packs \times $\$3.29$ new price (excluding sales tax) = $\$1,896,310,940$).
- Incremental retail sales are estimated to be \$54,692,000 ($\$1,896,311,000 - \$1,841,619,000 = \$54,692,000$).

- Incremental state sales tax revenue is estimated to be \$3,828,000 (\$54,692,000 X 7.00% state rate = \$3,828,440) per year.
- The \$3,828,000 in incremental state sales tax revenue would be apportioned as follows: \$1,111,000 to the General Fund, \$2,492,000 to education, \$176,000 to local governments, \$14,000 to the DOR, and \$35,000 to the Sinking Fund.
- The net recurring increase to state revenues resulting from incremental state sales tax collections is estimated to be \$3,652,000 (\$3,828,000 - \$176,000 local share = \$3,652,000) per year.
- The total net recurring increase to state revenues resulting from the increased excise tax is estimated to be \$61,106,000 (\$57,454,000 from additional excise tax + \$3,652,000 from additional sales tax = \$61,106,000) per year.
- Incremental local option sales tax revenue is estimated to be \$1,231,000 (\$54,692,000 X 2.25% local option rate = \$1,230,570).
- The total net recurring increase to local government revenues resulting from the increased excise tax is estimated to be \$1,407,000 (\$1,231,000 in local option tax revenue + \$176,000 in state-shared sales tax revenue = \$1,407,000).

Other Assumptions:

- New cigarette tax stamps with added security features would be required to reflect the price change and to help combat any increase in illegal importation of cigarettes.
- The recurring increase to state expenditures for tax stamp enhancements is estimated to be \$50,000 per year.
- The one-time increase to state expenditures for computer and software enhancements is estimated to be \$6,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director