

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1531

Bill Subtitle: TO ENSURE THE LONG-TERM FUNDING OF CERTAIN HEALTH CARE PROGRAMS BY ENCOURAGING IN-STATE PURCHASES OF CERTAIN TOBACCO PRODUCTS.

Basic Change :

Representative Lea, Senator D. Sanders

The bill would limit the amount of excise tax levied on cigars. Under current law, the wholesale level excise tax is levied at the rate of sixty-eight percent (68%) of the manufacturers selling price to the wholesaler. The bill would change the method of the tax calculation for certain cigars.

The existing 68% wholesale level excise tax on cigars is distributed with 66% being distributed to State General Revenues and 2% distributed to support the UAMS Fund, the Breast Cancer Control Fund, the Breast Cancer Research Fund, the Arkansas Prostate Cancer Foundation, and the Aging and Adult Services Fund to assist the Meals on Wheels Program. The bill would change the taxation for the 66% portion of the existing tax only.

The 66% portion of the existing tax would be limited with the maximum tax per cigar being fifty cents (\$.50). The provision would reduce the tax on those cigars that have a sales price from the manufacturer to the wholesaler greater than seventy-five and seventy-five hundredths cents (75.75¢) each. To illustrate:

Mfg Price = \$1.00 per cigar	Current Tax: \$.68	Proposed Tax: \$.52
Mfg Price = \$2.00 per cigar	Current Tax: \$1.36	Proposed Tax: \$.54
Mfg Price = \$3.00 per cigar	Current Tax: \$2.04	Proposed Tax: \$.56

The proposal would be effective on the first day of the second calendar month following the effective date of the act.

Revenue Impact :

\$134,790.00 Annual Loss to State General Revenues

[Based on 2012 excise tax reports showing total cigar sales at cost in Arkansas with an estimated 1.5% of cigar sales being subject to the proposed tax cap.
Average price for a premium cigar is estimated at \$2.00]

Taxpayer Impact :

Taxpayers would report the wholesale excise tax for cigars in differing manners dependent on their purchase price per cigar. For cigars with a purchase price of less than 75¢ each, the taxpayer would apply the 68% tax rate to the total purchase price amount. For cigars with a purchase price of 75 ¢ or more, the taxpayer would apply both a 2% tax rate to the total purchase price amount and an amount of \$.50 per cigar.

Resources Required :

None

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Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Revisions to the current tobacco tax reporting form and making computer programming changes.

Other Comments :

None

Legal Analysis :

HB1531 would cap the aggregate amount of tobacco excise tax levied on cigars in Arkansas by four of the code sections that levy the tax on other tobacco products (§§ 26-57-208, 26-57-803, 26-57-805, and 26-57-807) at a rate equivalent to 50 cents per cigar. The other code section that levies the tax on other tobacco products, including cigars, § 26-57-1102 is not included in the cap.

Cigars, or non-cigarette tobacco products, are already taxed in a different manner than cigarettes using a percentage of the manufacturer's selling price instead of a per unit tax.

The implementation of the cap would take effect on the first day of the second calendar month following the effective date of the act. DFA is charged with promulgating rules to implement this change.