

Department of Finance and Administration

Amended Legislative Impact Statement

Bill: SB337

Bill Subtitle: AN ACT TO REINSTATE THE BORDER CITY TAX RATE FOR CIGARETTES AND OTHER TOBACCO PRODUCTS.

Basic Change :

**Sponsors: Sen. Bledsoe
Reps. Bryant and McKenzie**

The State of Arkansas levies a tax on wholesalers in the state for the sale of cigarettes and other tobacco products. Prior to Act 580 of 2019 (Act 580), cigarettes sold in designated border zone areas were subject to a reduced tax if the corresponding rate in the border city outside of Arkansas was lower than the Arkansas rate. Border zones included:

- Cities that border the state line and have a population of at least five thousand (5,000);
- Any retail location within three hundred (300) feet of a state line; or
- Cities that border the state line but are separated by a navigable river.

Act 580 removed the reduced rates for sales of cigarettes in border cities. SB337 reinstates the border city tax rates for the sale of cigarettes in the border zones.

Under SB337, border zone cities would be recognized along the borders of Missouri, Tennessee, and Louisiana. The current cigarette stamp rate for Missouri is seventeen cents (17¢) per pack, Tennessee is sixty-two cents (62¢) per pack, and Louisiana is one dollar and eight cents (\$1.08) per pack. The border zone rate implemented under SB337 would be twenty cents (20¢) per pack for Missouri, sixty-five cents (65¢) per pack for Tennessee, and one dollar and eleven cents (\$1.11) per pack for Louisiana. The current Arkansas cigarette stamp rate is one-dollar and fifteen cents (\$1.15) per pack.

Under SB337, cigarettes sold in Missouri border zone cities will result in a loss of revenue for each pack of cigarettes sold of ninety-five cents (95¢) per pack; cigarettes sold in Tennessee border zone cities will result in a loss of revenue forty cents (40¢) per pack; cigarettes sold in Louisiana border zone cities will result in a loss of four cents (4¢) per pack. Arkansas Tobacco Control (ATC) in conjunction with the Arkansas Department of Finance and Administration (DFA) would determine which Arkansas cities meet the statutory definition of a border zone city.

SB337 does not contain an effective date. For purposes of the Revenue Impact below, an effective date of October 1, 2021 is assumed.

Revenue Impact :

FY2022

(Estimated Effective Date 10/1/2021 --- 8 months reduced tax collection)

\$-2.0 Million Loss in Cigarette Taxes Resulting from Border Zone -- Arkansas cigarette tax rate would not be collected in border zone areas. Total Cigarette Tax Revenue -- \$-2.0 Million; General Revenue -- \$-1.97 Million; Special Revenue -- \$-.062 Million to Aging/Adult Services Fund; Meals on Wheels; AR Prostate Cancer Foundation; Breast Cancer Control Fund; Breast Cancer Research Fund; and UAMS Center Fund.

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\$-136,000 Loss in State Sales Tax Resulting from Border Zone -- Decreased retail cigarette sales prices resulting from decreased cigarette tax in Border Zone Areas. Total 6.5% State Sales Tax -- \$-136,000; General Revenue -- \$-91,400; Special Revenues -- \$-44,900 to Educational Adequacy; Property Tax Relief Trust Fund; Conservation Tax; Highway Fund; State Central Services; and Constitutional Officers.

\$-45,500 Loss in city and county sales tax revenues.

FY2023

\$-3.1 Million Loss in Cigarette Taxes Resulting from Border Zone -- Arkansas cigarette tax rate would be not be collected in border zone areas. Total Cigarette Tax Revenue -- \$-3.1 Million; General Revenue -- \$-2.95 Million; Special Revenue -- \$-.1 Million to Aging/Adult Services Fund; Meals on Wheels; AR Prostate Cancer Foundation; Breast Cancer Control Fund; Breast Cancer Research Fund; and UAMS Center Fund.

\$-205,000 Loss in State Sales Tax Resulting from Border Zone -- Decreased retail cigarette sales prices resulting from decreased cigarette tax in Border Zone Areas. Total 6.5% State Sales Tax -- \$-205,000; General Revenue -- \$-115,000; Special Revenues -- \$-90,000 to Educational Adequacy; Property Tax Relief Trust Fund; Conservation Tax; Highway Fund; State Central Services; and Constitutional Officers.

\$-70,000 Annual loss in city and county sales tax revenues.

Taxpayer Impact :

Collections of cigarette taxes would be reduced for sales of cigarettes made within Arkansas cities meeting the definition of a border zone.

Resources Required :

SB337 will require a determination of which Arkansas cities meet the definition of a border zone city. Arkansas law requires all cigarettes sold in the State of Arkansas to have the appropriate tax stamp affixed to each pack of cigarettes sold in Arkansas indicating the appropriate tax has been paid. Border zone stamps representing each border zone state will have to be placed by DFA. This would include border zone stamps for Missouri, Tennessee and Louisiana. The estimated additional cost for the required border zone stamps will depend on volume and can range from \$5,000 to \$20,000 per year.

Time Required :

SB337 does not contain an effective date or an emergency clause. DFA would request at least a six-month period of time in which to implement a new Border Zone Stamp program.

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Procedural Changes :

Depending on the determination of which Arkansas cities qualify for the border zone tax rate, changes may need to be made to Arkansas Integrated Revenue System (AIRS).

Other Comments :

The addition of an effective date is recommended.

Legal Analysis :

None.