

EXCISE TAX PROPOSAL #4-5
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Privilege Tax; Cigarettes

Summary of Proposal for Consideration

This proposal would increase the tax on cigarettes and use the increased revenues to offset an income tax reduction. To aid in determining the amount of the increase, this proposal would also require the Department of Human Services and the Department of Health to provide to the Task Force an in-depth examination and estimate of the healthcare costs associated with smoking.

Fiscal Analysis

According to the Department of Finance and Administration, the estimated fiscal impact of increasing the tax on cigarettes, assuming a constant rate of use, will depend on the exact amount increased. For example, an increase of fifteen cents (\$0.15) per pack has been estimated to result in a twenty-six million dollar (\$26,000,000) revenue increase while an increase of fifty cents (\$0.50) per pack has been estimated to result in a seventy-seven million dollar (\$77,000,000) increase, but the latter also reactivates the Texas Cigarette Border Zone that may impact actual revenues collected.

Potential Legal Issues

Amendment 19 to the Arkansas Constitution (incorporated at Article 5, § 38) requires an emergency clause and a $\frac{3}{4}$ -vote of the legislature to increase the rate of certain taxes.¹ The tax on cigarettes is generally considered to fall under the Amendment 19 requirements. Accordingly, increasing the tax rate applicable to cigarettes would require an emergency clause and a $\frac{3}{4}$ -vote of the legislature.

¹ Amendment 19 also allows for the General Assembly to refer such tax rate increases to the voters for their approval, in which case the bill would require only a majority vote of each house.