

BOARD OF EQUALIZATION
REVENUE ESTIMATESB 151 (Hernandez) – Tobacco Products: Minimum Legal Age
Introduced 01/29/2015

PROPOSAL

This measure would extend the minimum legal age to purchase cigarettes and tobacco products from 18 to 21.

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

Data from the California Department of Finance Demographic Research Unit indicate that less than six percent of the adult population of California (over age 18) are less than 21 years old. Our review of the literature indicates that cigarette sales are likely to decline in proportion to this share of adult population if SB 151 is enacted. This measure will have a half-year revenue impact in fiscal year (FY) 2015-16.

Cigarette Tax. In FY 2013-14, 871 million tax-paid cigarette packs were distributed. Since 1980, tax-paid distributions have decreased about 3% per year. Staff believes that the 3% annual decline represents a reasonable estimate of the underlying trend for future years. This trend shows no clear signs of abating; thus, tax-paid cigarette distributions will likely decline by about 3% annually for FY 2014-15 and future years absent federal or state law changes.

Tobacco Products Tax. The tobacco products tax is based on the wholesale cost of these products at a tax rate equivalent to the tax rate imposed on cigarettes. The rate is determined by dividing the tax rate per cigarette by the average wholesale cost per cigarette. The BOE set the rate for FY 2014-15 at 28.95%. The wholesale cost (or wholesale sales) of tobacco products was about \$272 million in FY 2013-14. Tobacco product wholesale cost has increased an average of about 8.7% per year over the past three years; therefore, the assumption is that wholesale costs will grow 8.7% per year over the next several years.

Sales and Use Tax Impact. Cigarette and tobacco products are subject to sales and use taxes. Consequently, these tax revenues are likely to decline under SB 151.

REVENUE SUMMARY

The revenue impact is shown in the table below. Fiscal year 2016-17 will be the first complete year of the measure's impact. For FY 2016-17, cigarette excise tax revenue losses are forecast to be \$37.6 million, tobacco products excise tax losses will be \$5.5 million, and related sales and use tax losses will be \$25.3 million. Total excise tax and sales tax revenues decline by \$68.4 million.

This revenue estimate does not account for any further changes in economic activity that may or may not result from enactment of the proposed law.

		FY 2015-16 (Half-Year Impacts)	FY 2016-17
	Rates	Millions, Unless Indicated Otherwise	
<u><i>Cigarette Excise Taxes</i></u>			
Total Tax Paid Distributions	N.A.	845	819
Percentage of Total Population Age 18 - 20	N.A.	5.6%	5.4%
Tax Paid Distributions, Age 18 - 20	N.A.	23	43
Total Excise Tax Revenues	\$0.87	\$19.9	\$37.6
General Fund	\$0.10	\$2.3	\$4.3
Breast Cancer	\$0.02	\$0.5	\$0.9
Proposition 99	\$0.25	\$5.7	\$10.8
Proposition 10	\$0.50	\$11.4	\$21.6
<u><i>Other Tobacco Products Excise Taxes</i></u>			
Wholesale Sales	N.A.	\$9	\$19
Total Excise Tax Revenues	28.95%	\$2.6	\$5.5
Proposition 99	18.39%	\$1.7	\$3.5
Proposition 10	10.57%	\$0.9	\$2.0
<u><i>Cigarettes and Tobacco Products - Sales and Use Taxes</i></u>			
Total Taxable Sales and Use Revenues	8.42%	\$12.9	\$25.3
State General Fund	4.19%	\$6.4	\$12.8
State Education Protection *	0.25%	\$0.4	\$0.4
Local	3.06%	\$4.7	\$9.3
Special Districts	0.92%	\$1.4	\$2.8
Total Excise Tax and Sales and Use Tax Revenues, Cigarette and Tobacco Taxes		\$35.4	\$68.4
*The added rate for the State Education Protection Fund ends 12/31/2016.			