

**M e m o r a n d u m**

To: Mr. James E. Speed  
Executive Director

Date: May 6, 2003

From:   
David J. Gau, Deputy Director  
Property and Special Taxes Department

Subject: **2003-04 Tobacco Products Tax Rate**  
(May 28, 2003 Administrative Consent Calendar)

Beginning January 1, 1989, section 30126 of the Revenue and Taxation Code requires the annual determination by the Board of the Tobacco Products Tax Rate, pursuant to subdivision (b) of section 30123, Revenue and Taxation Code.

Attachment 1 details staff's calculation of the fiscal year 2003-04 Tobacco Products Tax Rate. The method for calculating the rate was established in 1989, and the formula was developed with industry's assistance. The rate is based on the wholesale premium brand cigarette price for April 2002, and is computed using the Board-approved method as shown. The April 2002 prices are used as this is the last price change that reflects the wholesale cost as of March 1, as called for in the statute noted above. Attachment 2 shows the history of the Tobacco Products Tax Rate.

I recommended that the fiscal year 2003-04 Tobacco Products Tax Rate be set at 46.76 percent.

Please place this item on the Board's May 28, 2003 Administrative Consent Calendar for approval.

DJG:kn  
Attachments

cc: Ms. Deborah Pellegrini  
Mr. Dennis Maciel  
Mr. Vic Day  
Mr. Bill Kimsey

Approved:

  
\_\_\_\_\_  
James E. Speed, Executive Director

BOARD APPROVED  
at the \_\_\_\_\_ Board Meeting

\_\_\_\_\_  
Deborah Pellegrini, Chief  
Board Proceedings Division

ITEM #II  
Sub-Item 5  
5/28/03

## TOBACCO PRODUCTS TAX RATE CALCULATION

July 1, 2003 to June 30, 2004

## WEIGHTED AVERAGE WHOLESALE COST PER CIGARETTE CALIFORNIA

MANUFACTURER'S LIST CIGARETTE PRICES -- APRIL 2002\*

<u>CIGARETTE TYPE</u>	<u>PRICE</u>
Filter Tip - 80 mm Long/King (80/85 mm)	\$ 138.20
Extra Long (100/120 mm)	\$ 138.20
Unfiltered - Standard (70 mm)	\$ 138.20
King (85 mm)	\$ 138.20

**Computation:**

1. Weighted Avg. Mfg. Price Per 1,000 cigarettes	<u>\$ 138.20</u>
	\$ 138.20
2. Add: Whsle Markup @ 6% (line 1 x .06)	<u>\$ 8.29</u>
3. Weighted Avg. Wholesale Price (line 1 + line 2)	<u>\$ 146.49</u>
4. Weighted Ave. Wholesale Price (line 3/1,000)	\$ .1465

**Rate Calculation:**

$c$  = tax rate per cigarette (\$.0685)  
 (c includes the tax rate per cigarette of \$.0435 per package of 20 cigarettes  
 plus the \$.025 "equivalent" tax rate increase pursuant to Prop. 10 effective 7/1/99)  
 (R & T Code Section 30123(b))

$w$  = weighted average wholesale cost of one cigarette (\$.1465)

$x$  = tax rate on tobacco products

$$\frac{c}{w} = x, \quad \text{or} \quad \frac{\$ .0685}{\$ .1465} = \underline{\underline{46.76\%}}$$

\*USDA Tobacco Outlook Report (TBS-254) dated April 23, 2003.

### TOBACCO PRODUCTS TAX RATE HISTORY

<u>Fiscal Year</u>	<u>Rate</u>
88-89	41.67%
89-90	37.47%
90-91	34.17%
91-92	29.35%
92-93	26.82%
93-94	23.03%
94-95	31.20%
95-96	31.20%
96-97	30.38%
97-98	29.37%
7/98-12/98	26.17%
1/99-6/99	61.53%
99/00	66.50%
July 1 to September 9, 2001	
Smokeless Tobacco	
Moist Snuff	
\$0 to \$1.69 per ounce	248%
\$1.70 and above per ounce	131%
Dry Snuff	256%
Chewing Tobacco	490%
Other Tobacco Products	52.65%
September 10, 2001 to June 30, 2002	52.65%
02-03	48.89%
<b>03-04</b>	<b>46.76%</b>