STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**06/29/02**	Bill No:	**AB 433**
Tax:	**Sales and Use Tax** **Cigarette and Tobacco Products**	Author:	**Committee on Budget**
Board Position:	**Support**	Related Bills:	**AB 428 (Assembly Budget Committee)** **SB 1849 (Senate Budget and Fiscal Review Committee)** **SB 1890 (Ortiz)**

BILL SUMMARY

This is a budget trailer bill implementing various provisions incorporated into the 2002-03 Budget. Among other things, this bill would do the following:

- Authorize the Board to waive any penalties and interest on unpaid sales and use taxes owed by eligible taxpayers, as defined, to the extent that the underlying tax liability is paid.
- Impose an additional excise tax on cigarettes of thirty-one and one-half mills ($0.0315) per cigarette, or 63 cents per package of 20, and impose an equivalent compensating floor stock tax, operative August 1, 2002. The revenue from the tax increase would be deposited into the General Fund.

ANALYSIS

Penalties and interest (Section 1)

Current Law

Under existing law, when a sales or use tax liability is not paid when due, interest is imposed on the unpaid tax and one or more penalties may be added to the liability. Generally, a penalty of ten percent is imposed for failure to pay the tax timely, but the law contains other provisions for additional penalties for other reasons for noncompliance. Under the law, interest continues to accrue on any unpaid portion of the tax until the tax is paid in full. Interest is computed on a simple basis, and only accrues on the unpaid tax liability. Interest does not accrue on any unpaid penalty amounts.

If a payment is not timely received, the Board generally negotiates with the taxpayer for payments, and if the liability remains unpaid, the Board ultimately searches for any assets of the taxpayer, and takes collection actions to use the assets to satisfy the tax liability. Collection actions may include manually searching records for assets, seizing bank accounts, or seizing and selling vehicles, vessels, or stocks. In the event of a financial hardship, existing law allows installment payment arrangements, or collection may be deferred until the financial situation of the taxpayer improves. However, if taxpayers can obtain loans or can use credit lines to pay their tax liabilities, they are expected to do so.

If a debt remains unpaid for a number of years, and a lien has been filed and assets cannot be located, the Board may write off the debt pursuant to provisions in the Government Code (discharge from accountability). When a debt is written off, however, the debt is still due and owing and any liens recorded are still valid, but routine billing and collection actions are discontinued unless assets are subsequently located. There is no statute of limitations on the Board's collection of a tax debt, and interest and applicable penalties continue to accrue. The debt also remains on the taxpayer's credit record, impeding his or her ability to obtain credit.

Under existing law, the Board does not have the statutory authority to reduce a tax liability, and instead must bring a civil action against the taxpayer for what is commonly called an "offer in compromise." Such an action requires the assistance of the Attorney General (AG). In general, an offer in compromise is a process whereby the taxpayer offers to pay an amount that he or she believes to be the maximum amount that can be paid within a reasonable period of time. If the parties agree to the amount offered, the debt is compromised (reduced) to that amount. Currently, sales and use taxes and other taxes and fees administered by the Board may be compromised only where there is doubt as to the collectibility, and through the AG's statutory authority to obtain a judgment against the tax or feepayer to collect the amount due.

After an offer by a taxpayer to reduce the debt is reviewed for completeness and reasonableness, the Board collects the amount offered from the taxpayer and the review process commences, with final approval by the Board's Chief Counsel. A stipulated judgment is obtained followed by the filing of a satisfaction of the judgment when all terms of the agreement have been met. The court documents, which include a stipulation setting forth the terms of the compromise, are a matter of public record. In the offer in compromise process, the Board generally follows the Franchise Tax Board's (FTB) procedures and Employment Development Division's (EDD) law with respect to:

- the terms of the offer
- the process leading up to the acceptance of the offer, including high levels of review; and
- the refunding of rejected offers without interest, at the taxpayer's discretion.

Proposed Law

This bill would add Section 7093.8 to the Sales and Use Tax Law to authorize, for the period beginning October 1, 2002 and ending June 30, 2003, an eligible taxpayer's liability with respect to any unpaid taxes, to be satisfied by the payment of an amount equal to the tax liability, excluding penalties and interest. The bill would specify that this authority would be limited to an unpaid tax liability that has been determined by the Board to be a "high-risk" collection account.

The bill would provide the following definitions:

- “Eligible taxpayer” means any individual that receives notification from the Board that the taxpayer's unpaid tax liability may be satisfied by the payment of an eligible amount.
- "Eligible amount" means an amount equal to any unpaid tax liability, excluding penalties and interest, owed by the eligible taxpayer that is paid in one or more installments, as determined by the Board, on or before the due date established by the Board, but in no event later than June 30, 2004.
- "High-risk collection account" means any unpaid tax liability of a taxpayer where satisfaction of that liability under this bill would be in the best interest of the state, and shall include any unpaid tax liability for which the Board has made either of the following determinations:
  (1) Under the Board’s collection modeling policies, practices, and procedures, efforts to collect the unpaid tax liability would not be economical.
  (2) The unpaid tax liability would not be paid in full within a reasonable period of time.
- "Unpaid tax liability" means any final determination of liability under Part 1 (commencing with Section 6001), including tax, penalties, and interest, that are owed by an individual and, as of October 1, 2002, are unpaid.

The bill would further provide:

- No refund or credit shall be granted with respect to any penalty or interest paid or collected with respect to an unpaid tax liability prior to October 1, 2002.
- The determinations made by the Board pursuant to this bill shall be final and conclusive and shall not be subject to review by any other officer, employee, or agent of the state, or by any court.
- Nothing in Section 7056, or in any other provision of law, shall be construed to require the disclosure of standards used or to be used in connection with any determinations made by the Board for purposes of this bill, or the data used or to be used for determining those standards if the Board determines that the disclosure will seriously impair assessment, collection, or enforcement of sales or use taxes.
- Nothing in this bill shall authorize the Board to compromise any final tax liability.
- Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code (the Administrative Procedure Act) shall not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued in implementing and administering the program required by this bill.
- This provision is operative with respect to unpaid tax liabilities of high-risk collection accounts that are the subject of notifications made to eligible taxpayers on or after October 1, 2002, and before July 1, 2003.
- Whenever a "high-risk collection account" is forgiven of any penalties and interest pursuant to this bill, the public record shall include all of the following information:
  (1) The name of the taxpayer.
  (2) The amount of related penalties and interest relieved.
  (3) A summary of the reason why the relief is in the best interest of the state.

COMMENTS

1. **Sponsor and purpose.** According to a consultant to the Assembly Budget Committee, this provision has no specific sponsor. This bill is intended to accelerate the collection of delinquent taxes that might not otherwise be collected in order to provide for sufficient revenues for the funding of the critical needs of the state.
2. **Related legislation.** AB 1458 (Kelley) is currently on the Governor's desk for signature. This Board-sponsored bill would provide the Board with the administrative authority to compromise a tax or fee debt under the Sales and Use, Use Fuel, and Underground Storage Tank Maintenance Fee laws. By eliminating the court proceeding, the Board anticipates that the offer in compromise process would be expedited and greater efficiency in resolving these collection cases would be realized.

COST ESTIMATE

The Board would incur administrative costs to implement this provision. These costs include staff workload associated with the identification and notification of "eligible taxpayers" and related administrative support. These costs are estimated as follows:

2002-03 (10 months)	2003-04 (2 months)
$379,000	$60,000

REVENUE ESTIMATE

It has been projected that this provision would result in additional sales or use tax payments of $20 million. As an order of magnitude, the chart below demonstrates the total existing sales and use tax accounts receivable balances as of June 30, 2001. The amounts shown do not include those liabilities in bankruptcy status.

Age of Receivable	Tax	Interest	Penalty	Total
1 to 2 years	$ 64,257,572	$ 36,714,362	$ 18,799,564	$ 119,771,498
2 to 3 years	$ 37,275,312	$ 26,306,900	$ 10,152,193	$ 73,734,405
3 to 5 years	$ 54,408,272	$ 42,789,179	$ 15,004,368	$ 112,201,819
5 to 10 years	$ 56,758,829	$ 71,546,403	$ 16,076,904	$ 144,382,136
Over 10 years	$ 14,286,586	$ 40,301,584	$ 6,016,009	$ 60,604,179
Total	$ 226,986,571	$ 217,658,428	$ 66,049,038	$ 510,694,037

ANALYSIS

Cigarette Tax Increase (Section 11)

Current Law

Under existing law, Revenue and Taxation Code Section 30101 (Cigarette and Tobacco Products Tax Law) imposes an excise tax of 6 mills (or 12 cents per package of 20) on each cigarette distributed in this state. In addition, Sections 30123 and 30131.2 impose a surtax of 12 1/2 mills (25 cents per package of 20) and 25 mills (50 cents per package of 20), respectively, on each cigarette distributed in this state. The current total tax on cigarettes is 43 1/2 mills per cigarette (87 cents per package of 20).

Sections 30123 and 30131.2 also impose a surcharge on tobacco products at a rate to be annually determined by the Board. The tobacco products tax rate is equivalent to the combined rate of tax on cigarettes and is based on the March 1 wholesale cost of cigarettes. Currently, the surcharge rate for fiscal year 2002-03 is 48.89 percent.

Of the 87 cent excise tax imposed on a package of 20 cigarettes, 2 cents is deposited into the Breast Cancer Fund, 10 cents into the General Fund, 25 cents into the Cigarette and Tobacco Products Surtax Fund, and 50 cents into the California Children and Families First Trust Fund (CCFF Trust Fund). The tobacco products surtax imposed under Section 30123 is deposited into the Cigarette and Tobacco Products Surtax Fund, while the surtax imposed under Section 30131.2 is deposited into the CCFF Trust Fund.

Proposed Law

Among other things, this bill would add Article 4 (commencing with Section 30132) to Chapter 2 of Part 13 of Division 2 of the Revenue and Taxation Code to impose an additional tax of 63 cents per package of 20 cigarettes. The tax would be imposed beginning August 1, 2002. The bill would also impose a compensating floor stock tax on the August 1, 2002 cigarette inventory of a dealer, wholesaler and distributor.

The proceeds from the tax increase would be deposited by the Board into the General Fund.

Background

Proposition 99, passed on the November 1988 ballot, effective January 1, 1989, imposed a surtax of 25 cents per package of 20 cigarettes, and also created an equivalent tax on tobacco products. Proceeds from the taxes fund health education, disease research, hospital care, fire prevention, and environmental conservation.

Assembly Bill 478 (Ch. 660, 1993) and Assembly Bill 2055 (Ch. 661, 1993), effective January 1, 1994, added an excise tax of 2 cents per package of 20 cigarettes for breast cancer research and early detection services.

Proposition 10, passed November 3, 1998, effective January 1, 1999, imposed an additional surtax of 50 cents per package of 20 cigarettes. Additionally, the measure imposed an additional excise tax on the distribution of tobacco products equivalent to the additional cigarette tax, and imposed an equivalent compensating floor stock tax.

The revenues from the additional tax are deposited into the CCFF Trust Fund and are used to: (1) fund early childhood development programs, and (2) offset any revenue losses to certain Proposition 99 programs as a result of the additional tax imposed by Proposition 10.

COMMENTS

1. **Sponsor and purpose.** According to a consultant to the Assembly Budget Committee, this provision has no specific sponsor. It is intended to address, in part, the projected 2002-03 Budget shortfall.
2. **Summary of June 29 amendments.** These amendments increase the additional surtax on cigarettes from 50 cents to 63 per package of 20 cigarettes and change the effective date of the additional surtax from September 1, 2002 to August 1, 2002.
3. **This measure does not contain a corresponding tax increase on tobacco products.** However, the 63-cent cigarette tax increase would increase the tobacco products tax rate for fiscal year 2003-04 as a result of Proposition 99. Section 30123(b) (Proposition 99) generally provides that the tobacco products tax rate is determined annually by the Board, which is equivalent to the combined rate of tax imposed on cigarettes. As such, a tax increase on tobacco products is automatically triggered whenever the tax imposed on cigarettes is increased.

   However, an increase to the tobacco products tax rate as a result of this bill would not be effective until the 2003-04 fiscal year because current law provides that the Board determine a tobacco products rate "annually." Since the Board determined the rate for the 2002-03 fiscal year on May 7, 2002 and that rate is currently in effect, a new rate will not be determined until 2003, which would be effective for the 2003-04 fiscal year.

   It should be noted that the proceeds from the resulting tobacco products tax increase would not be deposited into the General Fund. The proceeds would be deposited into the Cigarette and Tobacco Products Surtax Fund (created by Proposition 99) to fund health education, disease research, hospital care, fire prevention, and environmental conservation.
4. **This measure would increase state and local sales and use tax revenues.** Under current Sales and Use Tax Law, the total amount of the retail sale is subject to sales or use tax unless specifically exempted or excluded by law. Because the excise tax on cigarettes is not specifically exempted or excluded, it is included in the total amount of the sale and subject to sales or use tax. Since this measure would increase the excise tax on cigarettes, which presumably would be passed on to the ultimate consumer through an increase in the retail selling price of cigarettes, the amount of the sale of these products to which the sales or use tax applies would correspondingly increase. The impact this bill would have on state and local sales and use tax revenues is discussed in the Revenue Estimate.
5. **This bill contains floor stock tax provisions.** Proposed Section 30135 contains language to impose a floor stock tax on a dealer's, wholesaler's and distributor's inventory. A floor stock tax is important because it equalizes the excise tax paid by cigarette dealers, wholesalers, or distributors on their inventory and those cigarettes

purchased after the effective date of a tax increase. Having a large cigarette inventory before a tax rate increase takes effect can result in a windfall profit to a cigarette seller. The selling price of cigarettes can be raised and attributed to the rate increase, but the additional funds collected are profit and not an excise tax paid to the state. A floor stock tax mitigates this windfall.

As an example of the impact of not having a floor stock tax, in apparent anticipation of the tax increase of 2 cents per package of 20 cigarettes for funding breast cancer research projects beginning in January 1, 1994, sales of cigarette stamps jumped by $34.8 million in December 1993, or enough stamps for 99 million packs of cigarettes. There was a corresponding decrease in the number of stamps purchased in January and February 1994. Because distributors had an adequate inventory of 35-cent cigarette stamps on hand to affix to their cigarette packages, they could delay for months having to buy the 37-cent stamps which were sold beginning January 1, 1994. This huge inventory stockpiling translated into $2 million in lost revenue for the Breast Cancer Fund, money which had been anticipated as part of the original revenue estimate.

While there are additional costs associated with administering the floor stock tax, the revenue substantially compensates for that cost.

6. **This bill reduces the floor stock tax by the distributor's discount.** Current law provides that stamps and meter impression settings shall be sold at their denominated values less 0.85 percent to licensed distributors. The discount is intended to help defray the cost (leasing of equipment/labor cost) to the distributor for affixing the stamps. As such, this bill would specifically provide distributors with that same discount for purposes of the floor stock tax.

   This bill would reduce the floor stock tax paid by a "discount to a licensed distributor determined in accordance with Section 30166." It is should be noted that SB 1700 (Peace) and AB 1666 (Horton) would repeal Section 30166 of the Revenue and Taxation Code, thereby eliminating the 0.85 percent distributor's discount. Accordingly, if SB 1700 or AB 1666 becomes law on or before the effective date of this cigarette tax increase, a distributor would not be allowed the 0.85 percent discount for purposes of the floor stock tax.

7. **Would an increase in the cigarette tax increase evasion?** Tax evasion associated with cigarettes and tobacco products is one of the major areas that can reduce anticipated state revenues. In 1999, Board staff spent considerable time developing a variety of statistical approaches to estimate cigarette tax evasion. In addition, Board staff reviewed numerous studies of behavioral responses of smokers attributable to price changes as well as studies that estimated tax evasion. Using a baseline statistical model, Board staff estimated that cigarette tax evasion in California was running at annual rates of approximately $130 to $270 million. The estimate was only for evasion of excise taxes, and did not include associated evasion of other taxes, such as sales and use or income taxes. A key premise in the Board's research is that both cigarette consumption and cigarette tax evasion are highly correlated to product prices and excise tax rates.

Two major events that occurred since November 1998 have dramatically increased California excise taxes as well as cigarette prices excluding taxes: Proposition 10 and the Tobacco Master Settlement Agreement made between states and tobacco manufacturers (tobacco settlement). Together, these two developments, when coupled with typical wholesaler and retailer distribution margins, have increased average prices of cigarettes to California consumers by about 50 percent in relation to early November 1998 prices. It was estimated that the impacts of Proposition 10 and the tobacco settlement more than doubled cigarette tax evasion in California.

This bill would impose an additional excise tax on cigarettes of 31.5 mills per cigarette, or 63 cents per package of 20. It is assumed that this increase would cause a correlated increase in tax evasion based on the Board's findings when developing the impacts of Proposition 10 and the tobacco settlement. The Revenue Estimate discusses the impact this bill would have on excise tax revenues associated with tax evasion.

8. **Suggested technical amendment.** On page 19, lines 1 through 3, the language is unnecessary. The language provides that the tax imposed shall be imposed on cigarettes in the possession or under the control of every dealer and distributor on and after 12:01 a.m. on August 1, 2002. Since this language duplicates the language contained in Section 30135, it is suggested that Section 30133(b) be stricken from the bill.

9. **Related Legislation.** AB 428 (Assembly Budget Committee) and SB 1849 (Senate Budget and Fiscal Review Committee) propose to increase the excise tax on cigarettes by 50 cents per package of 20.

   In addition, Senate Bill 1890 (Ortiz) would impose, among other things, an additional excise tax on cigarettes of 65 cents per package of 20 and an additional excise tax on the distribution of tobacco products equivalent to the additional cigarette tax. The revenue from the tax increase would be deposited into the Tobacco Use Reduction and Compensation Fund, as created by SB 1890. That bill was held in the Senate Revenue and Taxation Committee. The Board's position on SB 1890 is neutral.

COST ESTIMATE

The Board would incur costs related to this measure for notifying potential feepayers, developing returns, computer programming, developing and carrying out compliance and audit efforts to ensure proper reporting, and administering a floor stock tax.

2002-03	2003-04	2004-05	2005-06 and Ongoing
$1,073,000	$990,000	$533,000	$507,000

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Fiscal Year 2002-03

Cigarette Tax. Tax-paid cigarette distributions were 1,288 million packs in fiscal year 2000-01, down about 5 percent from 1999-00. According to the 2002-03 *Governor's Budget Summary,* total cigarette consumption is estimated to decline in the range of 3 percent annually in the next few years. Consumption is estimated to be 1,212 million packs in fiscal year 2002-03, (1,288 million packs x 0.97 x 0.97 = 1,212 million packs) Consumption for the period August 1, 2002 through June 30, 2003 is estimated to be 1,111 million packs ((11/12) x 1212 = 1,111). However, an increase in the tax rate as large as the one proposed by this bill would surely cause both a decrease in actual consumption and an increase in tax evasion. Although the exact magnitude of the effects is uncertain, we have assumed that this bill would cause an additional decrease of 8 percent in tax paid distributions. (This estimate assumes a price elasticity of demand of -0.50, applied to estimated average 2001 prices of approximately $4.00 per pack.) Therefore, the estimated taxable distributions subject to this proposal for the period August 1, 2002 through June 30, 2003 would be 1,022 million packs. (1,111 million packs x 0.92 = 1,022.1 million packs).

The current tax rate on cigarettes is $0.87 per pack. Under the proposal, this rate would only apply in July of 2002. An estimated 101 million packs would be taxed at the current tax rate of $0.87 per pack in July (1,212 x (1/12) = 101).

A 63 cents per pack increase, starting August 1, 2002 would result in increased excise tax revenues for fiscal year 2002-03 as follows:

	Packs (millions)	Rate (per pack)	Revenue (millions)
Current Rate (July 2002)	101	$0.87	$ 87.9
Proposed Rate (August 2002 through June 2003)	1,022	$1.50	$1,533.0
Total, Combined Rates	1,123	n.a.	$1,620.9
Current-Law Rate	1,212	$0.87	$1,054.4
Difference			$566.5

A corresponding floor stock tax, assuming a three weeks supply of cigarettes, approximately 66 million packs (((1,212 x 0.921) / 52) x 3 = 64.4), would produce $96.0 million in total revenue (64 million packs x $1.50 = $96.0) and $40.3 million in additional revenue (64 million packs x $0.63 = $40.3 million).

Tobacco Products Tax. The Board of Equalization has set the tobacco products tax rate for fiscal year 2002-03. The proposed $0.63 per pack increase in the cigarette excise tax rate will not affect the tobacco products tax rate until fiscal year 2003-04.

Fiscal Year 2003-04

Cigarette Tax. As mentioned earlier, under current law cigarette consumption is estimated to be 1,212 million packs in fiscal year 2002-03. Under current law, tax-paid cigarette sales in 2003-04 would be 3 percent below sales in 2002-03, or 1,176 million packs (1,212 x 0.97 = 1,175.6). The $0.63 tax increase would result in an 8 percent decline. This implies fiscal year 2003-04 sales of 1,083 million packs (0.92 x 1176 = 1,083.1).

A 63-cents per pack increase would result in increased cigarette tax revenues for fiscal year 2003-04 as follows:

	Packs (millions)	Rate (per pack)	Revenue (millions)
Current Rate	1,176	$0.87	$1,023.1
Proposed Rate	1,082	$1.50	$1,623.0
Difference			$599.9

Tobacco Products Tax. Pursuant to Proposition 99, this measure would result in an additional tax on tobacco products at a rate equivalent to the new 63-cent per pack rate this measure would impose on cigarettes. This tax increase would be effective on July 1, 2003.

The effective tobacco products tax is currently based on the wholesale cost of these products at a tax rate that is equivalent to the rate of tax imposed on cigarettes. The rate is determined by dividing the tax rate per cigarette by the average wholesale cost per cigarette. For rate setting purposes, the average cost per cigarette for the 2002-03 fiscal year is $0.1401. The current tax rate on cigarettes is $0.0685 per cigarette. The tobacco tax rate for 2002-03 is 48.89 percent ($0.0685 / $0.1401 = 0.48894).

For revenue estimation purposes, we assume no further increase in the wholesale cost of cigarettes in fiscal year 2003-04. The proposed tax rate on cigarettes would increase to $0.1000 per cigarette for purposes of calculating the tobacco products tax rate ($2.00 per pack, comprised of the current rate of $1.37 per pack plus the rate increase of $0.63 per pack; 2.00 / 20 = 0.1000).[1] This would increase the 2002-03 tobacco products tax rate to 71.38 percent ($0.1000 / $0.1401 = 0.7138).

The wholesale cost of tobacco products was $90.6 million during the 2000-01 fiscal year, down about 5 percent from 1999-00.[2] It would be reasonable to expect continued declines of 3 percent per year, similar to the long term trend for cigarette consumption. Using this assumption, estimated wholesale costs of tobacco products will be about $82.7 million in fiscal year 2003-04 ($90.6 x 0.97 x 0.97 x 0.97 = $82.7).

[1] The current effective rate of $1.37 per pack for tobacco products consists of $0.87 per pack related to Proposition 99 and $0.50 related to Proposition 10.

[2] Source: BOE Excise Taxes Division. Cited in a memo from Dave Hayes to Board Members, November 9, 2001, “Effects of Proposition 10 on Cigarette and Tobacco Products Consumption.”

However, an increase in the tax rate as large as the one proposed by this bill would surely cause both a decrease in actual consumption and an increase in tax evasion. Tax evasion is a larger problem with tobacco products than with cigarettes. Tax indicia, which are one disincentive to evaders, are not required for tobacco products. As mentioned earlier, at $0.1401 per cigarette, the estimated wholesale cost of cigarettes would be $2.80 per pack. Assuming a price elasticity of demand of –0.50, we would expect an additional decline of about 11 percent in tobacco products sales in 2003-04 resulting from the consumer behavior response to the tax increase (($0.63 / $2.80) x -0.50) = -0.113). Although the exact magnitude of the effects is uncertain, we have assumed that this bill would cause a decrease of 11 percent. Therefore, the estimated wholesale cost of tobacco products subject to this proposal for fiscal year 2003-04 would be (($82.7) x 0.89 = $73.6 million).

The increase in tobacco products tax revenue for fiscal year 2003-04 would be as follows:

	Wholesale Cost (millions)	Rate	Revenue (millions)
Current Rate	$82.7	48.89%	$40.4
Proposed Rate	$73.6	71.38%	$52.5
Difference			$12.1

Sales and Use Tax Impacts

The total increase in excise tax revenues would be $606.8 million for fiscal year 2002-03 and $612.0 for fiscal year 2003-04. If all of these taxes are passed on to the ultimate consumer, there would be an increase in state and local sales and use tax revenue as follows:

	Increased Revenue	
	2002-03	2003-04
State (5%)	30.3	30.6
Local (2.25%)	13.7	13.8
Transit (0.67%)	4.1	4.1
Total	$48.1 million	$ 48.5 million

Revenue Summary

Increasing the cigarette tax by 63 cents per pack and the resulting increase under Proposition 99 on tobacco products would result in the following revenue increase for the 2002-03 fiscal year and the 2003-04 fiscal year:

	2002-03	2003-04
Cigarette Tax Revenue Increase	$ 566.5 million	$ 599.9 million
Floor Stock Tax	$ 40.3 million	0
Tobacco Tax Revenue Increase	0	$ 12.1 million
State Sales & Use Tax (at 5%)	$ 30.3 million	$ 30.6 million
Total State	$ 637.1 million	$ 642.6 million
Local Sales & Use Tax (at 2.25%)	$ 13.7 million	$ 13.8 million
Transit Tax (at 0.67%)	$ 4.1 million	$ 4.1 million
TOTAL	$ 654.9 million	$ 660.5 million

Qualifying Remarks

Other legislative proposals (SB 1700, SB 1701, and SB 1702) would require licensing of cigarette dealers and change stamping requirements, among other law changes. This revenue estimate assumes current law with respect to cigarette stamping requirements and licensing of persons who sell cigarettes and tobacco products.

Analysis prepared by:	Cindy Wilson	445-6036	07/16/02
	Sheila T. Sarem	445-6579	
Revenue estimate by:	Joe Fitz	323-3802	
Contact:	Margaret S. Shedd	322-2376	

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.