

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 29, 2003

TO: Honorable Ron Wilson, Chair, House Committee on Ways & Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB1603** by Griggs (Relating to increases in the tax on cigarettes and other tobacco products and to the allocation of those increases to the foundation school fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1603, As Introduced: a positive impact of \$1,643,963,000 through the biennium ending August 31, 2005.

The estimated fiscal implications to general revenue reflect estimated dynamic tax feedback effects created by the increase/decrease in industry and/or individuals' tax burdens. The dynamic tax feedback effects are shown only with respect to the gain/loss incurred by the General Revenue Fund 0001.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$746,876,000
2005	\$897,087,000
2006	\$794,492,000
2007	\$840,616,000
2008	\$734,374,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from GENERAL REVENUE FUND 1	Probable Revenue Gain/(Loss) from FOUNDATION SCHOOL FUND 193
2004	(\$115,503,000)	\$862,379,000
2005	(\$145,734,000)	\$1,042,821,000
2006	(\$122,731,000)	\$917,223,000
2007	(\$152,558,000)	\$993,174,000
2008	(\$133,780,000)	\$868,154,000

Fiscal Analysis

The bill would amend Chapter 154 of the Tax Code to raise the cigarette tax rate by \$50.00 per 1,000 cigarettes weighing three pounds or less per thousand (\$1.00 per pack of 20 cigarettes), to a new rate of \$70.50 per 1,000 cigarettes (\$1.41 per pack).

The share of cigarette tax revenues allocated to the General Revenue Fund 0001 would remain at the first \$20.50 of tax received per 1,000 cigarettes (41 cents per pack). The new cigarette tax revenue generated by the bill would be allocated to GR Account 0193—Foundation School.

The bill would amend Chapter 155 of the Tax Code to raise the tax rates for all of the tobacco

products in the chapter. The tax on small cigars (weighing three pounds or less per thousand) would increase from \$0.01 per 10 cigars to \$0.0344 per 10 cigars; the tax on each of the three categories of large cigars (\$7.50, \$11.00, and \$15.00 per thousand) would increase by 244 percent (to \$25.80, \$37.84, and \$51.60 per thousand, respectively); and the tax on tobacco products other than cigarettes and cigars (i.e., snuff and chewing tobacco) would increase from 35.213 percent to 121 percent of the manufacturer's list price. The new cigars and tobacco products tax revenue generated by the bill would be allocated to GR Account 0193.

The bill would take effect September 1, 2003.

Methodology

The proposed tobacco tax rate increases would have a negative effect on the taxable consumption of those products in Texas. Potential revenue collections were adjusted for consumption and tax avoidance effects and for collection lags.

Because taxable consumption would decline, and the Fund 0001 allocations from these taxes would remain at their current statutory levels, there would be a net loss of tobacco tax revenues allocated to Fund 0001.

In addition, negative dynamic fiscal impacts would result from these tax increases, which also would be borne by Fund 0001.

Because the bill would create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source, the fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, WP, SD