

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006**  
**Revision 1**

**May 12, 2006**

**TO:** Honorable Tom Craddick, Speaker of the House, House of Representatives

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: HB5** by Hamric (Relating to increases in the taxes on cigarettes and other tobacco products.),  
**As Passed 2nd House**

<b>Estimated Two-year Net Impact to General Revenue Related Funds</b> for HB5, As Passed 2nd House: a positive impact of \$431,719,000 through the biennium ending August 31, 2007.
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**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2007	\$431,719,000
2008	\$690,904,000
2009	\$731,254,000
2010	\$634,920,000
2011	\$675,203,000

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1
2007	\$431,719,000
2008	\$690,904,000
2009	\$731,254,000
2010	\$634,920,000
2011	\$675,203,000

**Fiscal Analysis**

The bill would amend Section 154.021(b) of the Tax Code, relating to the cigarette tax, and Section 155.0211(b) of the Tax Code, relating to the tobacco products tax.

The bill would increase the cigarette tax rate from \$20.50 to \$70.50 per thousand for cigarettes weighing three pounds or less per thousand, the equivalent of raising the tax by \$1.00 per pack of twenty cigarettes. The bill would increase the cigarette tax rate to \$72.60 per thousand for cigarettes weighing more than three pounds per thousand. Cigarette tax revenue generated by the rate increase would be allocated to the General Revenue Fund.

The bill would increase the tax rate for tobacco products other than cigars from 35.213 percent to 40 percent of the manufacturer's list price, exclusive of any trade discount, special discount, or deal. Tobacco products tax revenue generated by the rate increases would be allocated to the General Revenue Fund.

The bill would take effect January 1, 2007.

### **Methodology**

The estimates are based on analysis provided by the Comptroller of Public Accounts.

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

The Comptroller's analysis assumes that allocations to General Revenue would begin when the new tax revenue reached the State Treasury, which would be approximately one month following the bill's effective date.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, SD, EB