

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

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**March 20, 2011**

**TO:** Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

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

**IN RE: HB2547** by Zerwas (Relating to the definition of little cigars and tobacco products tax on little cigars.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB2547, As Introduced: a negative impact of (\$30,158,000) through the biennium ending August 31, 2013.

Additionally, the bill will have a direct impact of a revenue gain to the Property Tax Relief Fund of \$55,264,000 for the 2012-13 biennium. Any gain to the Property Tax Relief Fund will free up General Revenue of the same amount.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	(\$14,561,000)
2013	(\$15,597,000)
2014	(\$16,706,000)
2015	(\$17,893,000)
2016	(\$19,166,000)

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

Fiscal Year	Probable Revenue Gain/(Loss) from <i>General Revenue Fund</i> <b>1</b>	Probable Revenue Gain/(Loss) from <i>Property Tax Relief Fund</i> <b>304</b>
2012	(\$14,561,000)	\$26,293,000
2013	(\$15,597,000)	\$28,971,000
2014	(\$16,706,000)	\$29,412,000
2015	(\$17,893,000)	\$29,963,000
2016	(\$19,166,000)	\$30,633,000

**Fiscal Analysis**

The bill would amend Chapter 155 of the Tax Code, regarding cigars and tobacco products taxes.

The bill would add a definition for a little cigar to mean a roll for smoking made wholly or in part of tobacco if it uses a cellulose acetate or similar filter and is wrapped in any substance containing tobacco, other than natural leaf tobacco. The bill would remove weight as a determinant of the tax rate for any cigar.

The bill would set the tax rate on a little cigar to the same rate imposed on a cigarette under Section 154.021(b) of the Tax Code.

The bill would take effect September 1, 2011.

### **Methodology**

The bill's changes for little cigars would significantly increase their tax rate—from the current 2 or 15 cents per pack to \$1.41 per pack—and this will result in a reduction of taxable consumption in Texas. In addition, the efforts by state and federal governments to reduce Internet cigarette sales that avoid state taxation generally do not apply to cigars, and this analysis assumed some consumers will use the Internet to purchase cigars. First year revenue collections were adjusted for collections lags.

The bill adds a new subsection to Section 155.021 of the Tax Code, regarding the tax imposed on cigars, to deposit revenue from the “fee” imposed in this section to Property Tax Relief Fund 0304. This analysis assumes the new subsection refers to the various tax rates imposed on cigars. Under Section 155.241 of this Code, all revenue collected from cigar taxes is deposited to General Revenue Fund 0001, and therefore the new subsection would result in a loss to Fund 0001.

### **Local Government Impact**

No significant fiscal implication to units of local government is anticipated.

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

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