

**STATE  
FISCAL IMPACT**

**Drafting Number:** LLS 13-0461

**Date:** January 29, 2013

**Prime Sponsor(s):** Rep. Kagan

**Bill Status:** House Finance

**Fiscal Analyst:** Larson Silbaugh (303-866-4720)

**TITLE:** CONCERNING THE ELIMINATION OF THE STATE SALES AND USE TAX EXEMPTION FOR CIGARETTES.

| <b>Fiscal Impact Summary</b>                         | <b>FY 2013-2014</b>             | <b>FY 2014-2015</b> |
|--|---------------------------------|---------------------|
| <b>State Revenue</b><br>General Fund - increase      | \$28.0 Million                  | \$26.5 Million      |
| <b>State Expenditures</b><br>General Fund            | See state expenditures section. |                     |
| <b>FTE Position Change</b>                           | 0.0 FTE                         | 0.0 FTE             |
| <b>Effective Date:</b> July 1, 2013.                 |                                 |                     |
| <b>Appropriation Summary for FY 2013-2014:</b> None. |                                 |                     |
| <b>Local Government Impact:</b> None.                |                                 |                     |

**Summary of Legislation**

This bill eliminates the state sales and use tax exemption for cigarettes. The exemption for local taxing jurisdictions is unchanged.

**Background**

Prior to July 1, 2009, cigarettes were exempt from state sales and use taxes. Through various legislative actions, cigarettes were subject to the state sales and use tax from July 1, 2009, through June 30, 2013. Under current law, cigarettes become exempt from state sales and use taxes beginning July 1, 2013. The cigarette *sales and use tax exemption* does not impact cigarette *excise tax*.

**State Revenue**

Sales tax revenue to the General Fund will **increase \$28.0 million in FY 2013-14 and \$26.5 million in FY 2014-15**. This estimate is based on the number of packs of cigarettes expected to be sold based on the December 2012 Legislative Council Staff forecast for cigarette excise taxes, and the estimated average price per package of cigarettes. The amount of additional revenue decreases over time because of declining cigarette consumption. In addition, the vendor fee increases from 2.2 percent in FY 2013-14 to 3.3 percent in FY 2014-15.

**State Expenditures**

Eliminating the sales tax exemption on cigarettes is similar to current tax policy and therefore will not have an impact on Department of Revenue expenditures. Taxpayers can be notified of the change from this bill within existing resources. However, increasing General Fund revenue will make additional money available for General Fund Appropriations or reserve increases.

**Local Government Impact**

This bill does not affect local sales and use tax exemptions for cigarettes.

**Departments Contacted**

Revenue  
Municipalities  
Health Care Policy and Financing

Counties  
Public Health and Environment