

TOBACCO PRODUCTS TAX

**Virginia Department of Taxation
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Question: Virginia's cigarette tax currently is levied on just cigarettes. How much additional revenue would be generated if the tax were extended to all tobacco-related products (e.g., snuff, chewing tobacco, etc.)?

Background

Virginia first imposed a state cigarette tax in 1960, at a rate of three cents per pack. A similar tax was also imposed on cigars. The tax rate on cigarettes remained at three cents per pack until 1966, when Virginia imposed a sales and use tax and simultaneously lowered the cigarette tax to 2.5 cents per pack, where it remains today.

The cigarette tax is paid by wholesale dealers through the purchase of stamps, which must be affixed to each container from which cigarettes are sold. All other tobacco products are not taxed.

The most common approach taken by states that tax tobacco products other than cigarettes is to impose a tax on the wholesale price of the tobacco product. Of the 46 states that tax tobacco products other than cigarettes, 34 of these states use the wholesale price of the product as the base of the tax. North Carolina imposes a tax of 2% of the wholesale price of tobacco products other than cigarettes. Maryland imposes a tax of 15% of the wholesale price of other tobacco products.

Proposal

The estimate below shows the additional revenue that would be collected in Virginia if an excise tax of 2% were imposed on the wholesale price of tobacco products other than cigarettes. Tobacco products subject to the tax would include cigars, smoking tobacco, chewing tobacco and snuff.

FISCAL YEAR	EXCISE TAX	SALES TAX			
		GENERAL FUND	Transportation Trust Fund	LOCAL	TOTAL
2004	\$2,706,452	\$79,028	\$13,532	\$27,065	\$119,625
2005	\$2,931,825	\$85,609	\$14,659	\$29,318	\$129,587
2006	\$2,911,303	\$85,010	\$14,557	\$29,113	\$128,680

Assumptions

- ◆ The tax would be effective July 1, 2003.
- ◆ Because the tax would be remitted on a monthly basis, the Fiscal Year 2004 estimate represents 11 months of collections.
- ◆ Because excise taxes are included in the retail price upon which sales tax is computed, imposing this excise would increase sales tax revenues.