

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5125-02  
Bill No.: SCR 70  
Subject: Tobacco Products  
Type: Original  
Date: May 1, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Lifelong Health	\$350,600,000	\$413,600,000	\$409,500,000
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$350,600,000</b>	<b>\$413,600,000</b>	<b>\$409,500,000</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 4 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials for the **Office of Administration, Budget and Planning (BAP)** estimated impact of similar proposal (SB 1074) and **Oversight** will use those estimates as a base for estimating the effects of this proposal. This proposal would increase the state cigarette tax by 75 cents per pack. This would take it from 17 cents to 92 cents. It would also increase the “Other Tobacco Products” tax from 10% of wholesale price to 20% of wholesale price. (NOTE: Budget and Planning’s estimate was for a 33 cent increase. It is assumed that the larger increase in price in this proposal would result in greater decreases in cigarette sales; therefore, the projected income in this fiscal note represents an optimistic assessment.)

### **Cigarette Tax Portion (75 cents increase)**

Fiscal Year	Cigarette Tax Increase (millions)
2003	\$342.7
2004	\$404.1
2005	\$400.0

The estimate is based on the following assumptions:

1. The average retail price for a pack of cigarettes in Missouri will be \$3.00 on the effective date of the increase.
2. The price elasticity of demand for cigarettes is  $-0.4$ . Most scholarly studies place the price elasticity of demand for cigarettes at  $-0.3$  to  $-0.5$ .
3. The price increase and the elasticity of demand account for the price induced decline in demand at various levels.
4. There will be a 2% decline in sales due to anti-smoking activities funded by the Tobacco Settlement coupled with the state losing its relative tax “advantage” as the Missouri tax rises.
5. Base cigarette consumption is based on Fiscal Year 2002 sales to date and the assumption that a 1% annual decline would occur independent of the above factors.

ASSUMPTION (continued)

The Fiscal Year 2003 increase represents a ten-month total.

Other Tobacco Products (OTP)

BAP assumed the OTP tax is on pace to yield \$9.5 million in Fiscal Year 2002. Assuming no change in consumption of OTPs in Fiscal Year 2003 and beyond, increasing the OTP tax from 10% to 20% would yield the following:

<u>Fiscal Year</u>	<u>OTP Tax Increase (millions)</u>
<u>2003</u>	<u>\$7.9</u>
<u>2004</u>	<u>\$9.5</u>
<u>2005</u>	<u>\$9.5</u>

**Oversight** notes that this proposal would produce new annual revenues of more than \$50 million. Oversight also assumes that funds would be spent on the programs specified according to appropriations.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>FUND FOR LIFELONG HEALTH</b>			
<u>Income - Tobacco Taxes</u>	\$350,600,000	\$413,600,000	\$409,500,000
<b>ESTIMATED NET EFFECT ON FUND FOR LIFELONG HEALTH</b>	<b><u>\$350,600,000</u></b>	<b><u>\$413,600,000</u></b>	<b><u>\$409,500,000</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small business which sell or buy tobacco products at retail would be affected by this proposal.

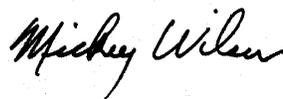
### DESCRIPTION

This proposal would authorize an additional seventy cents per pack excise tax on the sale of each pack of cigarettes and an additional ten percent (10%) tax on the on the manufacturer's invoice price of other tobacco products.

The moneys would be credited to a Fund for Lifelong Health and could be appropriated for purposes specified in the proposal.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This legislation would affect Total State Revenue.

### SOURCES OF INFORMATION



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Acting Director  
May 1, 2002