

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: February 22, 2009 (Revised from January 14, 2009 statement due to the passage of the Children's Health Insurance Program Reauthorization Act of 2009)

Bill Number: H.B. 3119

Author: Hosey

Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-21-635 so as to impose an additional tax of 1.5 cents per cigarette; to establish the Smoking Cessation and Health Care Fund into which must be deposited fifty percent of the revenue generated from the imposition of this tax and which must be administered by the Department of Health and Human Services for reimbursement of an individual's personal expenses related to smoking cessation and smoking related health care devices, equipment, and programs; and to provide that the remaining revenue generated by this tax must be credited to the General Fund and appropriated annually by the General Assembly to address health needs of South Carolinians, including using such funds for Medicaid matching funds.

REVENUE IMPACT ^{1/}

This bill raises the cigarette tax by 30-cents effective September 1, 2009 and is expected to increase business license tax revenue by an estimated \$80,150,000 in FY2009-10 after a loss of \$1,000,000 for stockpiling. Of this amount, the Department of Health and Human Services would receive fifty percent, or an estimated \$40,075,000, and the remaining fifty percent, or an estimated \$40,075,000, would remain in the state General Fund. This bill would also reduce General Fund business license tax revenue by an estimated \$1,757,942 in FY2009-10.

Explanation of Revision (February 16, 2008)

Public Law 111-3 (H.R.2) became law on February 4, 2009 authorizing the Children's Health Insurance Program (CHIP) through fiscal year 2013 and increasing federal funding for the program. The program provides health insurance to targeted children of low-income families. One method of funding the program was to increase the federal excise tax on cigarettes from the current rate of 39-cents per pack to 100.66-cents per pack beginning April 1, 2009. A 62-cent increase in the federal excise tax on cigarettes would reduce the demand for cigarettes by an estimated 4.6 percent. On the advice of the Department of Revenue, we have calculated that the stockpiling of cigarettes from the state excise tax increase would remove an estimated \$1,000,000 of state excise tax revenue from FY2009-10 collections. After adjusting for a loss of \$1,000,000 for stockpiling, this bill is expected to generate an estimated \$80,150,000 in FY2009-10 beginning September 1, 2009.

Explanation of Bill filed January 13, 2009

This bill would add Section 12-21-635 to allow an additional 1.5 cents to be levied on each cigarette made of tobacco or any substitute for tobacco pursuant to Section 12-21-620(1). An additional 1.5 cents on each cigarette equates to a 30-cent surcharge on each pack of 20 cigarettes, raising the state excise tax to 37 cents per pack of 20 cigarettes. Because the effective date of this bill is September 1, 2009, the higher surcharge would be in effect for ten months, and is expected to generate an estimated \$85,000,000 of business license tax revenue in FY2009-10. The Department of Health and Human Services would receive fifty percent of the revenue collected from the surcharge, or an estimated \$42,500,000 in FY2009-10, to be allocated to a new Smoking Cessation and Health Care Fund to be used for smoking-related expenditures. Also, fifty percent, or an estimated \$42,500,000 would remain in the state General Fund to be appropriated for health care and Medicaid match funds. Because the higher tax will reduce cigarette demand, the Business License tax currently allocated to the General fund will be reduced by an estimated \$1,757,942 in FY2009-10.

/s/ WILLIAM C. GILLESPIE, PH.D.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.