

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: May 12, 2010

Bill Number: H.B. 4962

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Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-21-626 so as to impose a surtax on each cigarette in an amount of one and one-half cents effective July 1, 2010, to provide for uses of the revenue derived from this surtax, to provide for the reporting, payment, collection, and enforcement of the surtax, and to define the term "cigarette" for purposes of the license tax on cigarettes including this surtax.

REVENUE IMPACT ^{1/}

This bill is expected to generate \$81,913,333 after adjusting for a loss of \$7,446,667 for stockpiling in FY2010-11. This bill is expected to increase funds to the Department of Health and Environmental Control by \$546,089; to annually direct \$2,730,444 to the Department of Agriculture; to allocate \$5,000,000 to the Medical University of South Carolina Hollings Cancer Center each year; and the remaining annual revenue, an estimated \$73,636,800, shall be deposited in the South Carolina Medicaid Reserve Fund. Because the higher tax will reduce cigarette demand, cigarette taxes currently allocated to the General Fund will be reduced by an estimated \$1,935,892 in FY2010-11. Also, in the absence of a stockpiling provision, General Fund business license tax revenue would increase by an estimated \$1,936,667 in FY2009-10.

Explanation of Bill

This bill would add Section 12-21-626 to amend Section 12-21-620(1) to impose a 30-cent surtax on each pack of 20 cigarettes beginning July 1, 2010 and is expected to generate an estimated \$81,913,333 in FY2010-11. The estimate is net of the three and one-half percent discount allowed each distributor of tobacco products if the tax return is timely filed with the Department of Revenue. The revenue of the surtax would be credited as follows: each fiscal year, \$546,089 would be allocated to the Department of Health and Environmental Control to be used for smoking cessation and prevention programs; \$2,730,444 would be allocated to the Department of Agriculture for the marketing of South Carolina crops and produce as being grown in South Carolina and to assist in relief from natural disasters affecting state-grown crops; \$5,000,000 would be allocated to the Medical University of South Carolina Hollings Cancer Center to be used for tobacco-related cancer research; and the remaining annual revenue shall be deposited in the South Carolina Medicaid Reserve Fund of the Department of Health and Human Services. Because the higher tax will reduce cigarette demand, cigarette taxes currently allocated to the General Fund will be reduced by an estimated \$1,935,892 in FY2010-11.

There would be created in the State Treasury a separate and distinct fund styled the South Carolina Medicaid Reserve Fund. Earnings and interest on the fund must be credited to the fund. Any balance in the Fund at the end of a fiscal year carries forward to the succeeding fiscal year. The fund may only be appropriated for the restoration and maintenance of effort of the Medicaid program. The fund must not be used to expand any component of the existing Medicaid program.

Because this bill removes the 110% stockpiling limitation on purchases of tobacco products by wholesalers, distributors, and retailers, we have calculated that the stockpiling of cigarettes from the

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state excise tax increase in the absence of an inventory tax on retailers at the average rate of one month's excise tax collections. Based on the BEA's estimate of \$89,360,000 in FY2010-11, we estimate that the potential loss in cigarette tax revenue from retailers stockpiling cigarettes to avoid the remittance of the increased tax if no inventory tax is included in the proposed legislation is one month's excise tax collections of \$7,446,667 in FY2010-11. This is based upon the legislation being effective before June 1, 2010. Also, in the absence of a stockpiling provision, wholesalers, distributors, and retailers will stockpile cigarettes in the current fiscal year at the rate of one month's excise tax collections and General Fund business license tax revenue would increase by an estimated \$1,936,667 in FY2009-10. This act takes effect on July 1, 2010.

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

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Chief Economist

Analyst: Martin

^{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.