

March 10, 2015

BOE's Cigarette and Tobacco Programs

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 4 on State Administration
Hon. Adrin Nazarian, Chair

and

Assembly Revenue and Taxation Committee
Hon. Phil Ting, Chair





California's Cigarette and Tobacco Excise Taxes

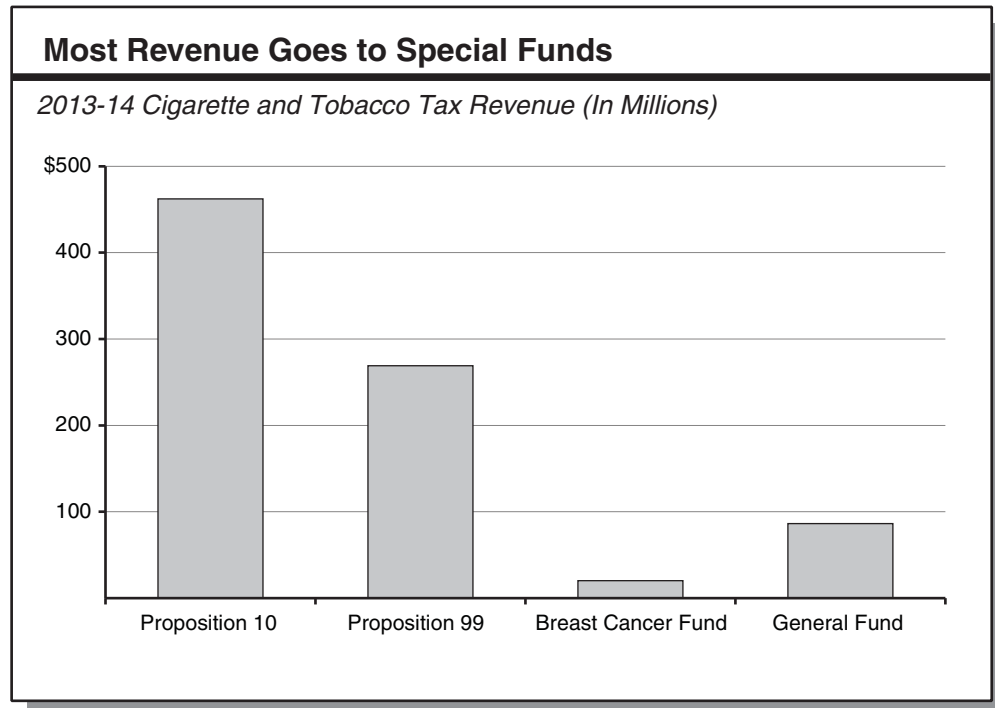
- State Levies \$0.87-per-pack Excise Tax on Cigarettes.***
The State Board of Equalization (BOE) collects this tax from distributors who supply cigarettes to wholesalers or retailers. Distributors pay this tax by purchasing cigarette tax stamps and affixing them to packs of cigarettes prior to distribution.

- State Levies Excise Tax on Other Tobacco Products.*** This tax applies to the distribution of other tobacco products, such as cigars and chewing tobacco. The current rate is roughly 29 percent. BOE adjusts the rate each year to reflect changes in the wholesale price of cigarettes.

- Other Taxes Apply to Cigarettes and Tobacco.***
 - The federal government levies excise taxes on cigarettes and tobacco products. The cigarette tax rate is \$1.01 per pack.
 - State and local sales and use tax applies to retail sales of tangible goods, including cigarettes and tobacco products. The rate ranges from 7.5 percent to 10 percent.
 - State law prohibits local cigarette taxes but allows regulatory fees. For example, San Francisco imposes a \$0.20-per-pack fee for litter cleanup.



Revenues From Cigarette and Tobacco Excise Taxes



- Roughly \$840 Million in 2013-14.** Nine-tenths of this money came from the cigarette tax, while the tax on other tobacco products raised about one-tenth.
- Most Revenue Goes to Special Funds.** In 2013-14, cigarette and tobacco excise taxes raised about:

 - \$460 million for Proposition 10, approved by voters in 1998. This fund supports early childhood development programs.
 - \$270 million for Proposition 99, approved by voters in 1988. This fund supports tobacco education and prevention, tobacco-related disease research, health care for low-income persons, environmental protection, and recreation.



Revenue From Cigarette and Tobacco Excise Taxes

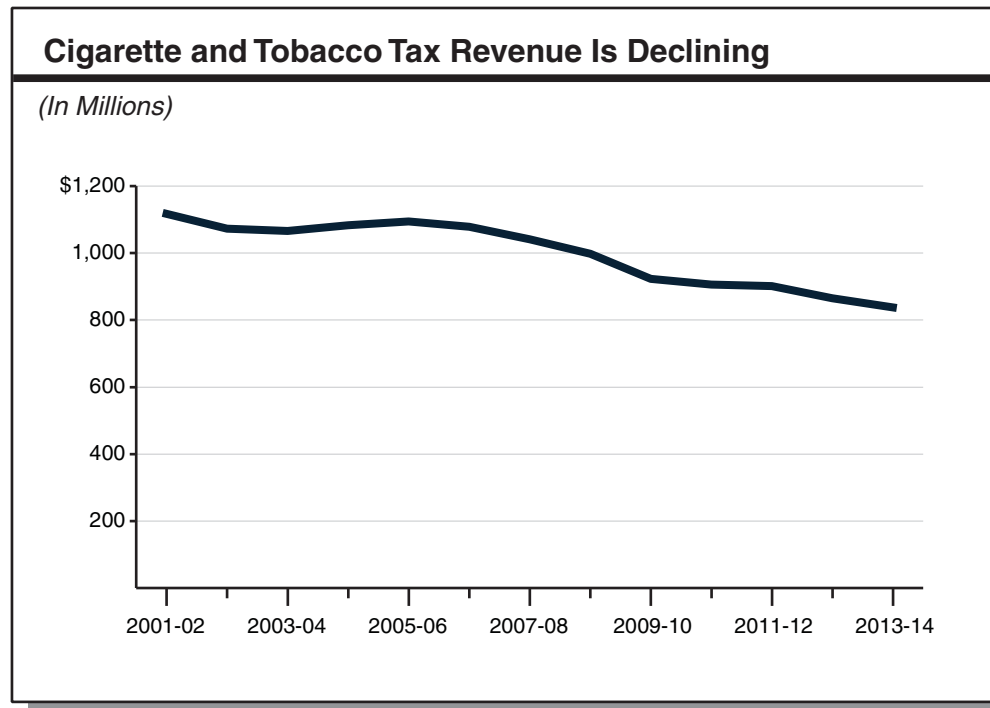
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- \$20 million for the Breast Cancer Fund, enacted by the Legislature in 1993. This fund supports breast cancer-related research and breast cancer screening for uninsured women.
- \$90 million for the General Fund.



Revenue From Cigarette and Tobacco Excise Taxes

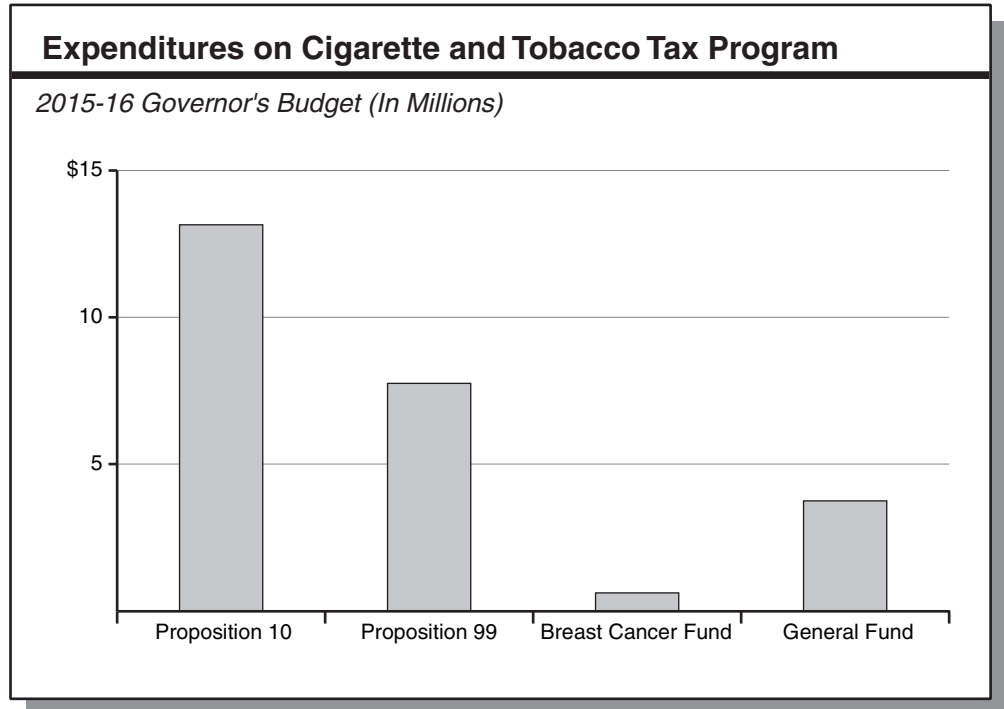
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Downward Revenue Trend. Cigarette tax revenue tends to decline over time due to declining smoking rates. Over the last decade, cigarette and tobacco tax revenue has declined at an annual rate of 3 percent.



Expenditures on Cigarette and Tobacco Tax Program



- ☑ **2015-16 Governor's Budget Proposes \$25.3 Million.** Each fund's share of tax program expenditures would be roughly proportional to its share of cigarette and tobacco tax revenue. The General Fund's share of expenditures would be somewhat higher than its share of revenue. The Proposition 10 and Proposition 99 funds would pay slightly less than their revenue shares.

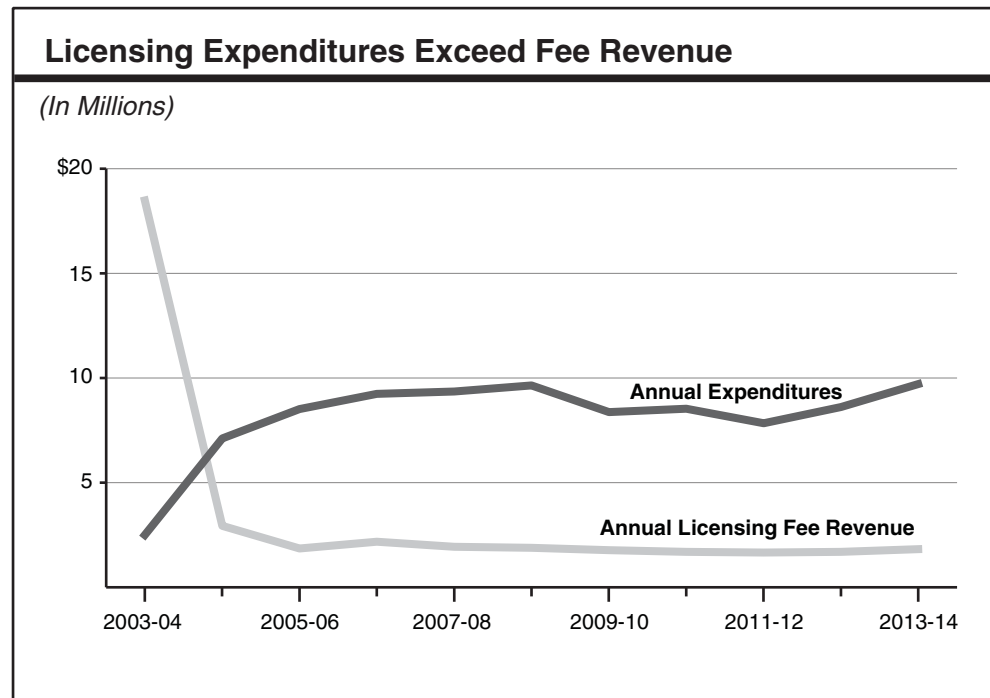


Cigarette and Tobacco Licensing

- BOE Administers Licensing Program.*** Since 2004, state law has required BOE to license businesses involved in the distribution or sale of cigarettes and tobacco products. Licensed businesses are subject to recordkeeping and inspection requirements.
- Licensing Fees.*** To register, cigarette and tobacco retailers pay a one-time licensing fee of \$100. Distributors and wholesalers pay an annual licensing fee of \$1,000. Manufacturers and importers pay one-time fees of varying amounts.
- Local Programs.*** Over 100 California local governments have cigarette and tobacco retail licensing programs. For example, the city of Los Angeles requires these retailers to pay an annual licensing fee of \$300.



Licensing Program Funding and Expenditures



☑ **Licensing Expenditures Have Consistently Exceeded Fee Revenues.** After the initial influx of fees, a gap opened up between this revenue source and program expenditures. From 2005-06 to 2013-14, this gap averaged \$7 million annually.

☑ **2006-07 Budget Shifted Funding.** The 2006-07 Governor’s Budget proposed using additional funds to pay for the licensing program. These funds included the General Fund and the three special funds that receive cigarette and tobacco tax revenue. The Legislature approved this proposal. The 2009-10 Budget Act approved the ongoing use of these funds for the licensing program.



Licensing Program Funding and Expenditures (Continued)



2015-16 Governor's Budget Proposes \$10.3 Million for Licensing. One-fifth of this amount would come from licensing fees. The other four-fifths would come from the four funds that receive cigarette and tobacco tax revenue. Each fund's share of these costs would be roughly proportional to the share of cigarette and tobacco tax revenue it receives.



2014-15 Supplemental Reporting Language

- ☑ ***Legislature Directed BOE to Report on Cigarette and Tobacco Programs.*** During 2014 budget hearings, representatives from Proposition 10 programs expressed concerns about the costs and funding of BOE's cigarette and tobacco programs, particularly the licensing program. The Legislature approved supplemental reporting language (SRL) in response to those concerns.

- ☑ ***SRL Set Three Requirements for BOE.***
 - By October 15, 2014: A report providing a detailed breakdown of BOE's cigarette and tobacco tax and licensing expenditures and a step-by-step explanation of the methods used to allocate costs for these programs.
 - By February 1, 2015: A stakeholder meeting to discuss potential approaches for future funding of the licensing program.
 - By April 1, 2015: A report describing at least three alternative approaches for future funding of the licensing program, including at least one that increases the share covered by licensing fees and another that increases the share covered by the General Fund.