

Governor's FY 2017 Budget: Articles

Staff Presentation to the House Finance Committee
March 16, 2016

Article 12 - Cigarette Tax

- Current law – Tax on all cigarettes sold or held for sale in the state
 - Tax evidenced by stamps
 - Current state tax is \$3.75 per pack of 20 (effective August 1, 2015)
- FY 2017 Proposal - Increase cigarette tax by \$0.25 to \$4.00 per pack of 20
 - Effective 12:01 am, August 1, 2016

Article 12 - Cigarette Tax

- FY 2017 Budget includes \$7.1 million
 - Cigarette tax - \$5.7 million
 - Sales tax - \$0.6 million
 - Floor Tax - \$0.8 million
 - Tax on existing inventory – on differential between tax paid for stamps on existing stock and new tax
- Estimate includes 0.7% pack demand drop
 - Same as FY 2016 estimate

Article 12 - Cigarette Tax

- 2015 Assembly increased tax from \$3.50 to \$3.75
- FY 2016 budget assumes \$135.4 million
 - Including \$6.5 million for increase
- November 2015 REC – \$136.5 million
 - 0.8% more than enacted

Article 12 – Cigarette Tax

- Each state/territory has own tax
 - Highest – New York, \$4.35/pack
 - RI is 2nd highest at \$3.75/pack
 - Lowest – Missouri, \$0.17/pack
- 32 states & DC have tax of >\$1.00
- 15 states & DC have tax of >\$2.00
- 8 states have tax of \$3.00 or more

Article 12 – Cigarette Tax

New England States	Tax	U.S. Rank
Connecticut*	\$ 3.65	3
Maine	\$ 2.00	12
Massachusetts	\$ 3.51	4
New Hampshire	\$ 1.78	19
Rhode Island	\$ 3.75	2
Vermont	\$ 3.08	6

**Effective July 1, 2016, tax increases to \$3.90/pack*

Source: Campaign for Tobacco-Free Kids, Feb. 24, 2016

Article 12 – Cigarette Tax

- State cigarette tax not only factor in final price
- Federal tax - \$1.01 since 2009
- State sales tax
 - Some states allow local option
- Some states allow local cigarette tax options in addition to state tax
 - New York City - \$1.50 local tax
 - Chicago - \$1.18 local tax, \$3.00 county tax

Article 12 – Cigarette Tax

- Base price of product
 - Product use/popularity
- Minimum markup – Retail and Wholesale
 - Lowest price at which product can be sold
 - To prevent sales below cost or unfair pricing
 - 1939 Assembly enacted initial minimum markup laws

Article 12 – Cigarette Tax

Manufacturer

Sets the product base price



Distributors (Wholesalers)

Pay cigarette tax

Must include wholesale minimum markup in price to dealers



Dealers (Retailers)

Must include retail minimum markup in price to consumers

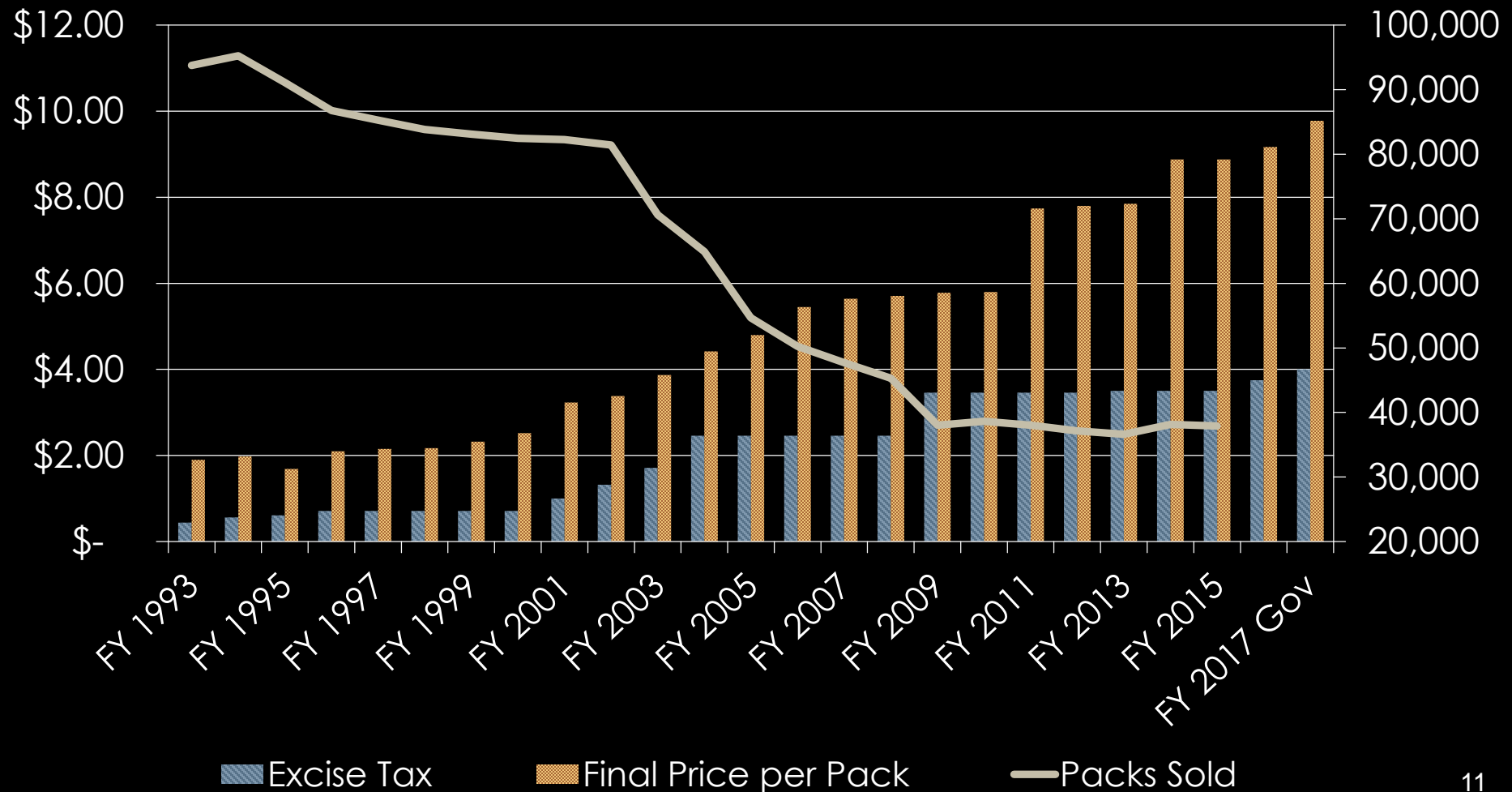


Consumer – Pays retail price plus sales tax

Article 12 – Cigarette Tax

Current Prices	RI	CT	MA
Base price/pack of 20 (<i>incl. fed. excise tax</i>)	\$ 4.39	\$ 4.39	\$ 3.95
State Cigarette Tax	3.75	3.65	3.51
Total Base Price/pack of 20	\$ 8.14	\$ 8.04	\$ 7.46
Minimum Markup – Wholesaler	2.75%	6.50%	2.75%
Minimum Markup – Retailer	6.00%	8.00%	25.00%
Total Markup/pack of 20	8.92%	15.02%	28.44%
Post Markup Price/pack of 20	\$ 8.87	\$ 9.25	\$ 9.58
Sales Tax Rate	7.0%	6.35%	6.25%
Final Retail Price	\$ 9.49	\$ 9.84	\$ 10.18

Article 12 – Cigarette Tax



Article 12 – Cigarette Tax

Current Prices	RI (Art. 12)	CT (7/1/2016)	MA
Base price/pack of 20	\$ 4.39	\$ 4.39	\$ 3.95
State Cigarette Tax	4.00	3.90	3.51
Total Base Price/pack of 20	\$ 8.39	\$ 8.29	\$ 7.46
Minimum Markup – Wholesaler	2.75%	6.50%	2.75%
Minimum Markup – Retailer	6.00%	8.00%	25.00%
Total Markup/pack of 20	8.92%	15.02%	28.44%
Post Markup Price/pack of 20	\$ 9.14	\$ 9.54	\$ 9.58
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