

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2018 REGULAR SESSION**

**MEASURE**

2018 BR NUMBER **0493**

**HOUSE** BILL NUMBER **339**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE** **An ACT relating to taxation of tobacco and making an appropriation therefor.**

**SPONSOR** **Representative J. Kay**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT     NO IMPACT     INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE     LOCAL     FEDERAL

BUDGET UNIT(S) IMPACT: \_\_\_\_\_

FUND(S) IMPACT:  GENERAL     ROAD     FEDERAL     RESTRICTED AGENCY \_\_\_\_\_     OTHER

**FISCAL SUMMARY**

<b>FISCAL ESTIMATES</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>	\$0	UPTF \$208 million GF (\$23 million)	UPTF \$245 million GF (\$30 million)	UPTF \$245 million GF (\$30 million)
<b>EXPENDITURES</b>				
<b>NET EFFECT</b>	\$0	UPTF \$208 million GF (\$23 million)	UPTF \$245 million GF (\$30 million)	UPTF \$245 million GF (\$30 million)

( ) indicates a decrease/negative

**MEASURE'S PURPOSE:** This bill assesses additional surtaxes on cigarettes, snuff, chewing tobacco, and tobacco products other than snuff or chewing tobacco and directs the additional revenue into a fund designed exclusively for funding underfunded pension plans.

**PROVISIONS/MECHANICS:** Section 1 creates a new section of KRS Chapter 42 that establishes the underfunded pension trust fund (UPTF). This fund transfers its balance once a month to each underfunded pension plan in equal amounts.

Section 2 amends KRS 138.140 to assess the additional surtaxes on cigarettes, snuff, chewing tobacco, and tobacco products other than snuff and chewing tobacco. The surtax on cigarettes is \$1.00 per pack of 20 cigarettes, increasing the total tax on cigarettes from \$0.60 per pack to \$1.60 per pack. The surtax on snuff is \$0.51 per 1.5 ounce package, increasing the total tax on snuff from \$0.19 per package to \$0.70 per package. The surtax on chewing tobacco is \$0.51 per

single unit, \$1.08 per half-pound unit, and \$1.75 per pound unit, increasing the total tax on chewing tobacco from \$0.19 per single unit, \$0.40 per half-pound unit, and \$0.65 per pound unit to \$0.70 per single unit, \$1.48 per half-pound unit, and \$2.40 per pound unit. The surtax on tobacco products other than snuff and chewing tobacco is 40 percent of the price for which the distributor sells the tobacco products, increasing the total tax on tobacco products other than snuff and chewing tobacco from 15 percent to 40 percent.

Section 3 amends KRS 138.143 to impose a floor stocks tax to ensure that all cigarettes, snuff, chewing tobacco, and tobacco products other than snuff and chewing tobacco sold on or after October 1, 2018 have had the new surtax paid on them.

Section 4 repeals and reenacts KRS 138.130 to add definitions, including adding e-cigarettes, vapor cartridges, and their components to the definition of tobacco products.

Sections 5 to 13 make conforming changes to various sections of the Kentucky Revised Statutes.

**FISCAL EXPLANATION:** It is estimated that the \$1.00 cigarette surtax will increase cigarette tax collections by \$168 million, decrease sales tax collections by \$30 million, and collect a one-time floor stocks tax of \$20 million. Sales tax collections are expected to decrease due to decreased purchasing because of the higher tax rate.

The estimated revenue from the snuff, chewing tobacco, and tobacco products other than snuff and chewing tobacco<sup>1</sup> surtaxes is \$22 million for snuff, \$4 million for chewing tobacco, \$20 million for tobacco products other than snuff and chewing tobacco, and a \$3 million one-time floor stocks tax.

The estimated revenue from the e-cigarette tax is \$31 million. The estimated revenue from the e-cigarette floor stocks tax is \$2 million.

Since the new taxes imposed by this Act do not take effect until September (for the floor stocks tax) and October (for the surtaxes) of 2018, there is no effect for fiscal year 2017–2018 and a reduced impact in fiscal year 2018–2019.

**DATA SOURCE(S):** LRC Appropriations and Revenue Staff; LRC Economists

**PREPARER:** Amit M. Shanker **NOTE NUMBER:** 104 **REVIEW:** JAB **DATE:** 2/14/2018

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<sup>1</sup> Since e-cigarettes are not currently in the tobacco products other than snuff and chewing tobacco tax base, they are not included in this estimate, but rather listed separately.