

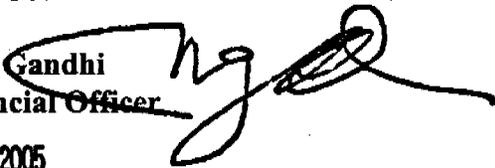
**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: DEC 19 2005

SUBJECT: Fiscal Impact Statement: "Other Tobacco Products Tax Act of 2005"

REFERENCE: Bill Number 16-117 as Amended

Conclusion

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. Enactment of the bill's provisions could result in increased cigarette tax revenue of approximately \$0.12 million beginning in the second half of FY 2006 and \$0.92 million in FY 2006 through FY 2009. However, the District's Office of Tax and Revenue (OTR) will require \$50,000 in the first year to implement the provisions of the proposed legislation.

Background

The proposed legislation amends the definition used for cigarette taxation to include all other tobacco products. The definition will include all rolled tobacco products usually used for smoking, chewing or as snuff, made in whole or in part with tobacco, except for cigarettes, premium cigars,¹ or pipe leaf tobacco products. The proposed legislation will establish the rate of taxation at 12 percent of the sale price.

1. For the purposes of the proposed legislation "premium cigars" are those that have a purchase price averaging \$2.00 or ore for either a single unit or packaged multiple units at retail pricing.

The new tax on tobacco proposed in this bill would be effective on April 1, 2006. The proposed legislation also allocates \$120,000 of new revenue resulting from the implementation of the proposed legislation among four District agencies.

Financial Plan Impact

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the legislation. The proposed legislation could result in cigarette tax revenue of approximately \$0.12 million in FY 2006.

The table in Figure 1 presents the projected cigarette tax revenue impacting the financial plan at the rate of 12.0 percent.

Figure 1.

Estimated Net Impact to the Financial Plan					
<i>(S in millions)</i>					
Item	FY 2006²	FY 2007	FY 2008	FY 2009	4 – Year Total
Other Rolled Tobacco	\$0.12	\$0.25	\$0.27	\$0.28	\$0.92
OTR IT Costs	(0.05)	(0.00)	(0.00)	(0.00)	(0.05)
Net Annual Impact	\$0.07	\$0.25	\$0.27	\$0.28	\$0.87

The Office of Tax and Revenue (OTR) will require a one-time expenditure of \$50,000 for programming changes and other administrative costs to implement the provisions of the proposed legislation.

2. Figures assume implementation resulting in collections for the second half of the fiscal year 2006.