

TAX: Cigarette Tax

ISSUE: Additional Fee for Non-Settling Manufacturers

BILL NUMBER(S): HB405/SB2112

SPONSOR(S): Rep. Farkas, Sen. Dockery

MONTH/YEAR COLLECTION IMPACT BEGINS: Upon Becoming Law

DATE OF ANALYSIS: 3/15/04

SECTION 1: NARRATIVE

a. Current Law: Currently non-settling manufacturers do not pay any additional fees to operate in the state.

b. Proposed Change: These bills create s. 210.0205, F.S., which imposes a 25 mill per cigarette (50 cents per 20 cigarette pack) fee on the sale, receipt, purchase, possession, handling, distribution, and use of nonsettling-cigarette manufacturer cigarettes sold in Florida. The fee is indexed to the CPI. This fee is in addition to excise and sales taxes already imposed on the sale of cigarettes. Nonsettling manufacturers are all manufacturers with the exception of the five manufacturers who have entered into agreements with Florida.

SECTION 2: DESCRIPTION OF DATA & SOURCES

The projection of the number of packs sold under current law is based on the November 2003 General Revenue Estimating conference. DBPR provided Florida estimates of packs currently being sold by settling manufacturers. Estimates of national market share by settling manufacturers are based on the Tobacco Settlement Conference.

SECTION 3: ASSUMPTIONS & RATIONALE

Packs sold are assumed to have no growth in 2005-06 over 2004-05. The CPI is assumed to first be applied in January of 2005. The high estimate assumes that the size of the non-settling market is 13.4% of the total market in Florida, as reported for the National market in the latest Tobacco Settlement Conference. The middle estimate assumes that the size of the market is reduced by 25% due to relative price changes after the fee is imposed. The low estimate assumes that the size of the market is reduced by 50% due to those changes.

SECTION 4: METHODOLOGY

See attached.

SECTION 5: IMPACT SUMMARY (DETAILS ATTACHED)

State Impact—All Funds	FY 2004-05 Annualized	FY 2004-05 Cash	FY 2005-06 Cash
High	\$86.1	\$79.0	\$88.7
Middle	\$64.7	\$59.3	\$66.7
Low	\$43.2	\$39.6	\$44.5

Consensus Estimate: Adopted: 3/16/04	FY 2004-05 Annualized	FY 2004-05 Cash	FY 2005-06 Cash
General Revenue	3.3	4.2	4.3
State Trust	39.7	49.5	51.1
Total State Impact	43.0	53.7	55.4
Total Local Impact	.2	.2	.2
Total Impact	43.2	53.9	55.6

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Market share information

Settling manufacturers Market Share as measured by DBPR data

1999-00	2000-01	2001-02	2002-03	2003-04*
0.857	0.902	0.85	0.846	0.843

*through October 2003

Settling manufacturers National Market Share from Tobacco Settlement Conference (excludes Liggett)
derived by averaging the appropriate calendar year estimates

2000-01	2001-02	2002-03	2003-04	2004-05
0.9231	0.8823	0.8665	0.8562	0.845
adding in estimate of Liggett from RJR site				
			0.8772	0.866

Range in national estimates for nonsettling manufacturers from various sources range from 8.2% to 15%

Big Daddy Smokes (KY)
bigdaddysmokes.com

Premium			Generic			Value		
B&W	Capri	32.99	B&W	GPC	22.99	Lorillard	Maverick	18.99
B&W	Carlton	32.99	B&W	Misty	21.99	Alliance	Durant	12.99
B&W	Kool	24.89	B&W	Viceroy	18.99	Commonwealth	USA Gold	18.99
B&W	Lucky Strike	32.99	Reynolds	Monarch	20.99	Japan Tobacco	Wave	14.99
Lorillard	Kent	32.99	Reynolds	Doral	22.99	Farmer's	Kentucky's Best	15.99
Lorillard	Newport	31.19	PhilipMorris	Basic	23.68		average	16.39
Lorillard	Old Gold	32.99	Commonwealth	Montclair	20.99			
Lorillard	True	32.99	Commonwealth	Malibu	22.99			
PhilipMorris	Benson&Hedges	32.39		average	21.95	NPM	Kingsley	9.59
PhilipMorris	L&M	31.59				NPM	Marathon	13.99
PhilipMorris	Marlboro	28.49	NPM	Marathon	13.99	NPM	Silver	11.69
PhilipMorris	Merit	32.99				NPM	Westport	11.99
PhilipMorris	Cambridge	30.99				NPM	Berkley	9.49
PhilipMorris	Chesterfield	32.99				NPM	Bronco	12.99
PhilipMorris	Virginia Slims	28.99	Liggett	Jade	17.99	NPM	GT One	12.99
Reynolds	Camel	28.99	Liggett	Pyramid	19.99	NPM	Gunsmoke	14.69
Reynolds	More	32.99		average	18.99		average	12.18
Reynolds	Now	32.99						
Reynolds	Salem	29.99				Liggett	Liggett Select	14.99
Reynolds	Vantage	29.99				Liggett	Sincerely Yours	13.95
Reynolds	Winston	29.99					average	14.47
	average	31.30						

Liggett Eve 24.44

E-Smokes (NC)
esmokes.com

Premium			Generic			Value		
B&W	Capri	30.35	B&W	GPC	19.99	Lorillard	Maverick	18.49
B&W	Carlton	30.35	B&W	Misty	19.69	Commonwealth	USA Gold	18.09
B&W	Kool	25.09	B&W	Viceroy	19.69	Vector Tobacco	USA	15.29
B&W	Lucky Strike	30.35	PhilipMorris	Basic	24.99	Farmer's	Kentucky's Best	15.99
Lorillard	Kent	30.99	Reynolds	Monarch	20.39	Premier Manuf.	Shield	14.99
Lorillard	Newport	30.35	Reynolds	Doral	23.49	Japan Tobacco	Wave	15.99
Lorillard	True	30.49	Commonwealth	Malibu	19.69	Lignum-2	Rave	11.99
Lorillard	Old Gold	27.95	Commonwealth	Montclair	19.69		average	15.83
PhilipMorris	Benson&Hedges	30.35		average	20.95			
PhilipMorris	L&M	30.50				NPM	Silver	11.79
PhilipMorris	Marlboro	29.99	NPM	Bailey's	16.99	NPM	GT One	11.99
PhilipMorris	Merit	30.99				NPM	Cowboys	12.09
PhilipMorris	Cambridge	28.10				NPM	Carnival	14.09
PhilipMorris	Chesterfield	30.50				NPM	Marathon	10.09
PhilipMorris	Virginia Slims	29.99	Liggett	Jade	15.69	NPM	Roger	13.99
Reynolds	Camel	30.25	Liggett	Pyramid	16.49	NPM	Rodeo	11.09
Reynolds	More	30.95		average	16.09		average	12.16
Reynolds	Now	30.95						
Reynolds	Salem	30.19				Liggett	Liggett Select	15.09
Reynolds	Vantage	30.99				Liggett	Epic	14.99
Reynolds	Winston	30.25					average	15.04
	average	30.00						

Liggett Eve 19.99

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Impact of indexed 50 cents per pack fee for Nonsettling Manufacturers (NSM's)

Current is November 2003 GR Conference

High estimate--assumes Florida share equal to National share of 13.4% of market for NSM's (from Tobacco Settlement Conference)--no change in market share

	Current		2004-05 Revised		Recurring Diff	First Year	Current		2005-06 Revised		Diff
	\$'s	%'s	\$'s	%'s			\$'s	%'s	\$'s	%'s	
	Elasticity			-0.400							
Base Price per pack (not incl. sales tax)	3.551		3.551				3.551		3.551		
New fee for NSM's			0.508						0.523		
Percentage of market by NSM's			0.134						0.134		
Average statewide Price per pack (not incl. Sales Tax)	\$3.6290		\$3.6970		\$0.0680		\$3.8300		\$3.9000		\$0.0700
Fiscal year average Tax (after dealer allowance)	\$0.3342		\$0.4022		\$0.0680		\$0.3342		\$0.4042		\$0.0700
Packs Sold (Millions)	1276.2		1266.6		-9.6		1276.2		1266.7		-9.5
Total Revenue 210.02 (Millions)	\$426.5		\$423.3		(\$3.2)	(\$2.9)	\$426.5		\$423.3		(\$3.2)
Less Refunds	\$5.2		\$5.2		(\$0.0)	(\$0.0)	\$5.2		\$5.2		(\$0.0)
Net Revenue	\$421.3		\$418.1		(\$3.2)	(\$2.9)	\$421.3		\$418.2		(\$3.1)
GR Service Charge	\$30.8	7.30%	\$30.5	7.30%	(\$0.3)	(\$0.3)	\$30.8	7.30%	\$30.5	7.30%	(\$0.3)
DBR	\$3.8	0.90%	\$3.8	0.91%	\$0.0	\$0.0	\$3.8	0.90%	\$3.8	0.91%	\$0.0
Net to be distributed	\$386.7		\$383.8		(\$2.9)	(\$2.6)	\$386.7		\$383.8		(\$2.9)
Rev. sharing, counties	\$11.2	2.90%	\$11.1	2.90%	(\$0.1)	(\$0.1)	\$11.2	2.90%	\$11.1	2.90%	(\$0.1)
PMATF	\$113.3	29.30%	\$112.5	29.30%	(\$0.8)	(\$0.7)	\$113.3	29.30%	\$112.5	29.30%	(\$0.8)
GR	\$246.3	65.21%	\$244.4	65.21%	(\$1.9)	(\$1.7)	\$246.3	65.21%	\$244.4	65.21%	(\$1.9)
Moffitt Center, Part 1	\$10.2	2.59%	\$10.2	2.59%	\$0.0	\$0.0	\$10.2	2.59%	\$10.2	2.59%	\$0.0
Moffitt Center, Part 2	\$5.7	1.47%	\$5.6	1.47%	(\$0.1)	(\$0.1)	\$5.7	1.47%	\$5.6	1.47%	(\$0.1)
Total New Revenue 210.0205 (Millions)			\$86.1		\$86.1	\$79.0			\$88.7		\$88.7
GR Service Charge			\$6.3	7.30%	\$6.3	\$5.8			\$6.5	7.30%	\$6.5
Net to be distributed			\$79.8		\$79.8	\$73.2			\$82.2		\$82.2
TRUTH campaign (HB only)			\$40.0	20%	\$40.0	\$36.7			\$40.0	20%	\$40.0
Youth anti-smoking (SB only)			\$16.0	20%	\$16.0	\$14.6			\$16.4	20%	\$16.4
Sales Tax Impact					\$3.1	\$2.8					\$3.1
GR					\$2.7	\$2.5					\$2.8
Local					\$0.4	\$0.3					\$0.4
Total Impact					\$86.0	\$78.9					\$88.7
GR					\$6.9	\$6.3					\$7.1
Local					\$0.3	\$0.2					\$0.3
State Trust					\$78.9	\$72.4					\$81.3

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Impact of indexed 50 cents per pack fee for Nonsettling Manufacturers (NSM's)

Current is November 2003 GR Conference

Middle estimate--assumes Florida share of 10.05% of market for NSM's--loss of 25% market share

	2004-05						2005-06				
	Current		Revised		Recurring Diff	First Year	Current		Revised		Diff
	\$'s	%'s	\$'s	%'s			\$'s	%'s	\$'s	%'s	
Elasticity			-0.400								
Base Price per pack (not incl. sales tax)	3.551		3.551				3.551		3.551		
New fee for NSM's			0.508						0.523		
Percentage of market by NSM's			0.101						0.101		
Average statewide Price per pack (not incl. Sales Tax)	\$3.6290		\$3.6800		\$0.0510		\$3.8300		\$3.8825		\$0.0525
Fiscal year average Tax (after dealer allowance)	\$0.3342		\$0.3852		\$0.0510		\$0.3342		\$0.3867		\$0.0525
Packs Sold (Millions)	1276.2		1269.0		-7.2		1276.2		1269.0		-7.2
Total Revenue 210.02 (Millions)	\$426.5		\$424.1		(\$2.4)	(\$2.2)	\$426.5		\$424.1		(\$2.4)
Less Refunds	\$5.2		\$5.2		(\$0.0)	(\$0.0)	\$5.2		\$5.2		(\$0.0)
Net Revenue	\$421.3		\$418.9		(\$2.4)	(\$2.2)	\$421.3		\$418.9		(\$2.4)
GR Service Charge	\$30.8	7.30%	\$30.6	7.30%	(\$0.2)	(\$0.2)	\$30.8	7.30%	\$30.6	7.30%	(\$0.2)
DBR	\$3.8	0.90%	\$3.8	0.91%	\$0.0	\$0.0	\$3.8	0.90%	\$3.8	0.91%	\$0.0
Net to be distributed	\$386.7		\$384.6		(\$2.2)	(\$2.0)	\$386.7		\$384.5		(\$2.2)
Rev. sharing, counties	\$11.2	2.90%	\$11.2	2.90%	\$0.0	\$0.0	\$11.2	2.90%	\$11.2	2.90%	\$0.0
PMATF	\$113.3	29.30%	\$112.7	29.30%	(\$0.6)	(\$0.5)	\$113.3	29.30%	\$112.7	29.30%	(\$0.6)
GR	\$246.3	65.21%	\$244.8	65.21%	(\$1.6)	(\$1.4)	\$246.3	65.21%	\$244.7	65.21%	(\$1.6)
Moffitt Center, Part 1	\$10.2	2.59%	\$10.2	2.59%	\$0.0	\$0.0	\$10.2	2.59%	\$10.2	2.59%	\$0.0
Moffitt Center, Part 2	\$5.7	1.47%	\$5.7	1.47%	\$0.0	\$0.0	\$5.7	1.47%	\$5.7	1.47%	\$0.0
Total New Revenue 210.0205 (Millions)			\$64.7		\$64.7	\$59.3			\$66.7		\$66.7
GR Service Charge			\$4.7	7.30%	\$4.7	\$4.3			\$4.9	7.30%	\$4.9
Net to be distributed			\$60.0		\$60.0	\$55.0			\$61.8		\$61.8
TRUTH campaign (HB only)			\$40.0	20%	\$40.0	\$36.7			\$40.0	20%	\$40.0
Youth anti-smoking (SB only)			\$12.0	20%	\$12.0	\$11.0			\$12.4	20%	\$12.4
Sales Tax Impact					\$2.3	\$2.1					\$2.3
GR					\$2.0	\$1.9					\$2.1
Local					\$0.3	\$0.3					\$0.3
Total Impact					\$64.6	\$59.3					\$66.6
GR					\$5.0	\$4.6					\$5.2
Local					\$0.3	\$0.3					\$0.3
State Trust					\$59.4	\$54.5					\$61.2

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Impact of indexed 50 cents per pack fee for Nonsettling Manufacturers (NSM's)

Current is November 2003 GR Conference

Low estimate--assumes Florida share of 6.7% of market for NSM's--loss of 50% market share

	2004-05						2005-06				
	Current		Revised		Recurring Diff	First Year	Current		Revised		Diff
	\$'s	%'s	\$'s	%'s			\$'s	%'s	\$'s	%'s	
Elasticity			-0.400					-0.400			
Base Price per pack (not incl. sales tax)	3.551		3.551				3.551	3.551			
New fee for NSM's (indexed)			0.508					0.523			
Percentage of market by NSM's			0.067					0.067			
Average statewide Price per pack (not incl. Sales Tax)	\$3.6290		\$3.6630		\$0.0340		\$3.8300	\$3.8650			\$0.0350
Fiscal year average Tax (after dealer allowance)	\$0.3342		\$0.3682		\$0.0340		\$0.3342	\$0.3692			\$0.0350
Packs Sold (Millions)	1276.2		1271.4		-4.8		1276.2	1271.3			-4.9
Total Revenue 210.02 (Millions)	\$426.5		\$424.9		(\$1.6)	(\$1.5)	\$426.5	\$424.9			(\$1.6)
Less Refunds	\$5.2		\$5.2		(\$0.0)	(\$0.0)	\$5.2	\$5.2			(\$0.0)
Net Revenue	\$421.3		\$419.7		(\$1.6)	(\$1.4)	\$421.3	\$419.7			(\$1.6)
GR Service Charge	\$30.8	7.30%	\$30.6	7.30%	(\$0.2)	(\$0.1)	\$30.8	\$30.6	7.30%	7.30%	(\$0.2)
DBR	\$3.8	0.90%	\$3.8	0.91%	\$0.0	\$0.0	\$3.8	\$3.8	0.90%	0.91%	\$0.0
Net to be distributed	\$386.7		\$385.3		(\$1.4)	(\$1.3)	\$386.7	\$385.3			(\$1.4)
Rev. sharing, counties	\$11.2	2.90%	\$11.2	2.90%	\$0.0	\$0.0	\$11.2	\$11.2	2.90%	2.90%	\$0.0
PMATF	\$113.3	29.30%	\$112.9	29.30%	(\$0.4)	(\$0.4)	\$113.3	\$112.9	29.30%	29.30%	(\$0.4)
GR	\$246.3	65.21%	\$245.3	65.21%	(\$1.0)	(\$0.9)	\$246.3	\$245.3	65.21%	65.21%	(\$1.0)
Moffitt Center, Part 1	\$10.2	2.59%	\$10.2	2.59%	\$0.0	\$0.0	\$10.2	\$10.2	2.59%	2.59%	\$0.0
Moffitt Center, Part 2	\$5.7	1.47%	\$5.7	1.47%	\$0.0	\$0.0	\$5.7	\$5.7	1.47%	1.47%	\$0.0
Total New Revenue 210.0205 (Millions)			\$43.2		\$43.2	\$39.6		\$44.5			\$44.5
GR Service Charge			\$3.2	7.30%	\$3.2	\$2.9		\$3.3	7.30%		\$3.3
Net to be distributed			\$40.1		\$40.1	\$36.7		\$41.3			\$41.3
TRUTH campaign (HB only)			\$40.0	20%	\$40.0	\$36.7		\$40.0	20%		\$40.0
Youth anti-smoking (SB only)			\$8.0	20%	\$8.0	\$7.3		\$8.3	20%		\$8.3
Sales Tax Impact					\$1.6	\$1.4					\$1.6
GR					\$1.4	\$1.3					\$1.4
Local					\$0.2	\$0.2					\$0.2
Total Impact					\$43.2	\$39.6					\$44.5
GR					\$3.3	\$3.1					\$3.4
Local					\$0.2	\$0.2					\$0.2
State Trust					\$39.7	\$36.4					\$40.9

Economic and Demographic Research

15-Mar-04