



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **HB0826.01: Generally revise tobacco tax laws**

Primary Sponsor: **Melody Cunningham**

Status: **As Introduced**

☐ Included in the Executive Budget      ☒ Needs to be included in HB 2      ☐ Significant Local Gov Impact

☐ Significant Long-Term Impacts      ☒ Technical Concerns      ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<b>Expenditures</b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>Revenues</b>				
General Fund (01)	\$9,723,000	\$12,139,000	\$11,766,000	\$11,020,000
State Special Revenue (02)	\$9,354,000	\$12,107,000	\$11,427,000	\$10,678,000
<b>Net Impact</b>	<u>\$9,723,000</u>	<u>\$12,139,000</u>	<u>\$11,766,000</u>	<u>\$11,020,000</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

HB 826 increases the cigarette tax from \$1.70 to \$2.70 per pack of 20 cigarettes. The Department of Revenue would need to update programs for the new tax rate as well as notify taxpayers of the tax rate change. This would increase revenue to the general fund by \$9.723 million in FY 2026, \$12.139 million in FY 2027, \$11.766 million in FY 2028, and \$11.019 million in FY 2029, as well as increases to several state special revenue funds.

### FISCAL ANALYSIS

#### Assumptions

- Under current law, cigarettes are taxed at \$1.70 per pack of 20 cigarettes or \$0.085 per cigarette if packed differently. See the table below for current HJ 2 revenue and distribution estimates.

Present Law Cigarette Tax Revenue and Distributions								
FY	HJ 2 Gross Revenue	Tribal Share	Remainder to Distribute	Vet's Home	LRBP	DPHHS	Vets & Spouses	General Fund
2026	\$43.241	2.434	\$40.807	5.000	\$1.06	\$17.96	0.150	\$16.641
2027	\$41.219	2.228	\$38.990	5.000	\$1.01	\$17.16	0.150	\$15.671
2028	\$39.428	2.160	\$37.268	5.000	\$0.97	\$16.40	0.150	\$14.751
2029	\$36.886	2.043	\$34.843	5.000	\$0.91	\$15.33	0.150	\$13.456

- HB 826 would increase the tax rate by \$1, which is approximately a 58.8% increase.
- HB 826 is assumed effective starting July 1, 2025 (Fiscal Year 2026).
- Using HJ 2 forecast on the cigarette tax and Department of Revenue data on the cigarette tax, total cigarette tax revenue for each fiscal year was divided by \$1.70 (the current tax) to obtain the total number of twenty-

pack sheets of decals for each fiscal year. This total number of twenty-pack sheets of decals was then multiplied by the HB 826 proposed tax rate of \$2.70. HB 826 does not have an effective date in the bill, so assuming an effective date of October 1, 2025, the new tax rate on a pack of cigarettes is \$1.70 for 3 months of FY 2026, and \$2.70 for the remaining 9 months of FY 2026. These values are shown in the table below.

<b>FY</b>	<b>HJ 2 Cig Tax Revenue</b>	<b>Number of 20-pack Sheets (Tax Revenue/\$1.70)</b>	<b>Tax Revenue under HB 826 (number of sheets X \$2.70)</b>
<b>2026</b>	\$43.241	25.436	\$62.318
<b>2027</b>	\$41.219	24.246	\$65.465
<b>2028</b>	\$39.428	23.193	\$62.620
<b>2029</b>	\$36.886	21.698	\$58.584

5. From the cigarette tax revenue, after the tobacco cigarette tribal agreement (for this analysis estimated at 5.30% of gross revenue), the remainder gets distributed to five accounts: state veterans' home account (the greater of 8.3% or \$5 million), long-range building program (2.6%), DPHHS Medicaid Initiatives (44%), veterans and surviving spouses account (\$150,000), and the general fund (45.1%). The table below includes estimates for the total revenue and distributions for HB 826.

<b>HB 826 Cigarette Tax Revenue and Distributions</b>								
<b>FY</b>	<b>HJ 2 Gross Revenue</b>	<b>Tribal Share</b>	<b>Remainder to Distribute</b>	<b>Vet's Home</b>	<b>LRBP</b>	<b>DPHHS</b>	<b>Vets &amp; Spouses</b>	<b>General Fund</b>
<b>2026</b>	\$62.318	3.303	\$59.015	\$5.00	\$1.53	\$25.97	0.150	\$26.364
<b>2027</b>	\$65.465	3.470	\$61.995	\$5.15	\$1.61	\$27.28	0.150	\$27.810
<b>2028</b>	\$62.620	3.319	\$59.301	\$5.00	\$1.54	\$26.09	0.150	\$26.517
<b>2029</b>	\$58.584	3.105	\$55.479	\$5.00	\$1.44	\$24.41	0.150	\$24.476

6. If HB 826 passes into law, the general fund would gain about \$9.7 million in FY 2026, \$12.1 million in FY 2027, \$11.8 million in FY 2028, and \$11.0 million in FY 2029. The table below shows the net revenue, general fund, and state special revenue fund impacts of HB 826.

<b>Change in Cigarette Tax Revenue and Distributions</b>								
<b>FY</b>	<b>HJ 2 Gross Revenue</b>	<b>Tribal Share</b>	<b>Remainder to Distribute</b>	<b>Vet's Home</b>	<b>LRBP</b>	<b>DPHHS</b>	<b>Vets &amp; Spouses</b>	<b>General Fund</b>
<b>2026</b>	\$19.077	0.869	\$18.208	\$0.00	\$0.47	\$8.01	0.000	\$9.723
<b>2027</b>	\$24.246	1.241	\$23.005	\$0.15	\$0.60	\$10.12	0.000	\$12.139
<b>2028</b>	\$23.193	1.159	\$22.033	\$0.00	\$0.57	\$9.69	0.000	\$11.766
<b>2029</b>	\$21.698	1.062	\$20.636	\$0.00	\$0.54	\$9.08	0.000	\$11.019

### Fiscal Analysis Table

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<b><u>Fiscal Impact</u></b>				
<b><u>Expenditures</u></b>				
<b><u>Funding of Expenditures</u></b>				
<b><u>Revenues</u></b>				
General Fund (01)	\$9,723,000	\$12,139,000	\$11,766,000	\$11,020,000
State Special Revenue (02)	\$9,354,000	\$12,107,000	\$11,427,000	\$10,678,000
<b>TOTAL Revenues</b>	<b>\$19,077,000</b>	<b>\$24,246,000</b>	<b>\$23,193,000</b>	<b>\$21,698,000</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	\$9,723,000	\$12,139,000	\$11,766,000	\$11,020,000
State Special Revenue (02)	\$9,354,000	\$12,107,000	\$11,427,000	\$10,678,000

**Technical Concerns**

1. There are technical concerns that would impact implementation due to transition to the new tax rate. With an assumed effective date of October 1, 2025, there would be retailers in possession of tax stamps purchased at the old rate of \$1.70 per pack.
2. The Department of Revenue recommends guidance on the transition to the new tax rate. Options for tax rate transitions include, but are not limited to: 1. a "floor tax" calculated on existing inventory available for sale (on 9/30/2025) and retailers would be assessed additional tax (\$1.00/pack) on available for sale cigarettes. 2. Allow any previously purchased stamps to be used and any stamps purchased on or after implementation date (10/1/2025.).

  
 Sponsor's Initials

  
 Date

  
 Budget Director's Initials

3/3/2025  
 Date