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Yes

"Corzine signs, praises \$29B state budget," Courier-Post, 6-30-09, p.1B

"Tax amnesty nets \$725M, restores rebates," Asbury Park Press, 6-30-09, p.A3

"Gov. cites savings, GOP slams spending in \$29B budget," Asbury Park Press, 6-30-09, p.A1

"Corzine signs \$29B budget," Burlington County Times, 6-30-09

"Guv inks budget," The Trentonian, 6-30-09

"State budget reduces property tax rebates," Courier News, 6-30-09

"Corzine signs \$29B budget," The Record, 6-30-09, p. A04

"Jersey's \$29B budget takes effect," The Times, 6-30-09, p. A01

"Governor approves \$29B tab," The Star-Ledger, 6-30-09, p. 012

"Corzine signs \$28.9B state budget, while Republicans warn of future problems, The Press of Atlantic city, 6-30-09, p. A1

"'Proud' Corzine signs budget," The Philadelphia Inquirer, 6-30-09, p.B01

"Governor Corzine signs off on state budget cut to rebates, vice tax hikes," Gloucester County Times, 6-30-09

LAW/RWH

[Corrected Copy]

**ASSEMBLY, No. 4103**

**STATE OF NEW JERSEY**

**213th LEGISLATURE**

INTRODUCED JUNE 11, 2009

**Sponsored by:**

**Assemblyman PATRICK J. DIEGNAN, JR.**

**District 18 (Middlesex)**

**Co-Sponsored by:**

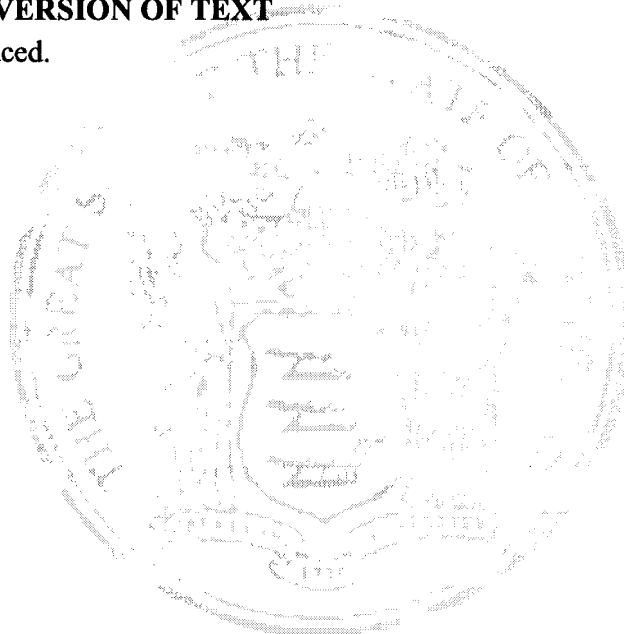
**Senator Codey**

**SYNOPSIS**

Raises cigarette tax rate from \$2.575 to \$2.70 per pack and dedicates additional revenue to the Health Care Subsidy Fund.

**CURRENT VERSION OF TEXT**

As introduced.



**(Sponsorship Updated As Of: 6/26/2009)**

A4103 DIEGNAN

2

1 AN ACT raising the cigarette tax rate and dedicating additional  
2 revenue to the Health Care Subsidy Fund, amending and  
3 supplementing P.L.1948, c.65 (C.54:40A-1 et seq.) and  
4 amending P.L.1997, c.264 and P.L.2004, c.68.

5

6 **BE IT ENACTED** by the Senate and General Assembly of the State  
7 of New Jersey:

8

9 1. Section 301 of P.L.1948, c.65 (C.54:40A-8) is amended to  
10 read as follows:

11 301. Tax imposed; rate. A tax is hereby imposed on the sale,  
12 use or possession for sale or use within this State of all cigarettes at  
13 the rate of **[\$0.12875] \$0.135** for each cigarette.

14 (cf: P.L. 2006, c.37, s.1)

15

16 2. (New section) a. Each licensed retail dealer under  
17 P.L.1948, c.65 (C.54:40A-1 et seq.), shall, on or before the first day  
18 of the second month after the effective date of P.L. ,

19 c. (pending before the Legislature as this bill), file a return under  
20 oath or certified under the penalties of perjury with the director on  
21 forms furnished by the director, showing the amount of cigarettes in  
22 the licensed retail dealer's possession in the State at 12:01 a.m. on  
23 the effective date of P.L. , c. (pending before the Legislature as  
24 this bill), and shall at the time of filing that return pay the tax to the  
25 director. Failure to obtain such forms shall not be an excuse for the  
26 failure to make a return containing the information required by the  
27 director.

28 b. Notwithstanding the provisions of section 401 of P.L.1948,  
29 c.65 (C.54:40A-11) to the contrary, each licensed distributor and  
30 licensed wholesale dealer under P.L.1948, c.65 (C.54:40A-1 et  
31 seq.), shall, on or before the first day of the second month after the  
32 effective date of P.L. , c. (pending before the Legislature as this  
33 bill), file a return under oath or certified under the penalties of  
34 perjury with the director on forms furnished by the director,  
35 showing the amount of cigarettes in the dealer's or wholesaler's  
36 possession in the State at the close of business prior to the effective  
37 date of P.L. , c. (pending before the Legislature as this bill). An  
38 amount of tax shall be due equal to the additional tax on the number  
39 of cigarettes bearing stamps, and unaffixed stamps on hand. Each  
40 licensed distributor and licensed wholesale dealer shall at the time  
41 of filing that return pay the tax to the director. Failure to obtain  
42 such forms shall not be an excuse for the failure to make a return  
43 containing the information required by the director.

**EXPLANATION** – Matter enclosed in bold-faced brackets **[thus]** in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

A4103 DIEGNAN

3

1       3. Section 4 of P.L.1997, c.264 (C.26:2H-18.58g) is amended  
2 to read as follows:

3       4. Notwithstanding the provisions of any other law to the  
4 contrary,

5       a. commencing July 1, 1998 and ending June 30, 2006: after  
6 the deposit required pursuant to section 5 of P.L.1982, c.40  
7 (C.54:40A-37.1), the first \$150,000,000 of revenue collected  
8 annually from the cigarette tax imposed pursuant to P.L.1948, c.65  
9 (C.54:40A-1 et seq.) and the first \$5,000,000 of revenue collected  
10 annually from the "Tobacco Products Wholesale Sales and Use Tax  
11 Act," P.L.1990, c.39 (C.54:40B-1 et seq.), shall be deposited into  
12 the Health Care Subsidy Fund established pursuant to section 8 of  
13 P.L.1992, c.160 (C.26:2H-18.58); and the next \$390,000,000 of  
14 revenue collected annually from the cigarette tax imposed pursuant  
15 to P.L.1948, c.65 (C.54:40A-1 et seq.) shall be appropriated  
16 annually for health programs, and the next \$50,000,000 of revenue  
17 collected annually from the cigarette tax imposed pursuant to  
18 P.L.1948, c.65 (C.54:40A-1 et seq.) shall be appropriated annually  
19 to the New Jersey Economic Development Authority for payment of  
20 debt service incurred by the authority for school facilities projects  
21 and in fiscal years commencing July 1, 2002 and July 1, 2003, the  
22 next \$30,000,000 of revenue collected annually from the cigarette  
23 tax imposed pursuant to P.L.1948, c.65 (C.54:40A-1 et seq.) shall  
24 be directed to the Department of Health and Senior Services to fund  
25 anti-smoking initiatives, except that the amount shall be  
26 \$40,000,000 in the fiscal year commencing July 1, 2004 and  
27 \$45,000,000 in the fiscal year commencing July 1, 2005; and

28       b. commencing with fiscal years beginning on and after July 1,  
29 2006, after the deposit required pursuant to section 5 of P.L.1982,  
30 c.40 (C.54:40A-37.1), the first \$150,000,000 of revenue collected  
31 annually from the cigarette tax imposed pursuant to P.L.1948, c.65  
32 (C.54:40A-1 et seq.) and the first \$5,000,000 of revenue collected  
33 annually from the "Tobacco Products Wholesale Sales and Use Tax  
34 Act," P.L.1990, c.39 (C.54:40B-1 et seq.), shall be deposited into  
35 the Health Care Subsidy Fund established pursuant to section 8 of  
36 P.L.1992, c.160 (C.26:2H-18.58). In addition, commencing with  
37 fiscal years beginning on and after July 1, 2006 but before July 1,  
38 2009, there shall be deposited \$215,000,000 of revenue collected  
39 annually from the cigarette tax imposed pursuant to P.L.1948, c.65  
40 (C.54:40A-1 et seq.) in accordance with the provisions of section 5  
41 of P.L.2004, c.68 (C.34:1B-21.20), and, commencing with fiscal  
42 years beginning on and after July 1, 2009, there shall be deposited  
43 \$241,500,000 of revenue collected annually from the cigarette tax  
44 imposed pursuant to P.L.1948, c.65 (C.54:40A-1 et seq.) in  
45 accordance with the provisions of section 5 of P.L.2004, c.68  
46 (C.34:1B-21.20).

47 (cf: P.L.2006, c.98, s.1)

1       4. Section 5 of P.L.2004, c.68 (C.34:1B-21.20) is amended to  
2 read as follows:

3       5. a. There is hereby created and established in the Department  
4 of the Treasury a separate nonlapsing fund to be known as the  
5 "Dedicated Cigarette Tax Revenue Fund." During the State fiscal  
6 year beginning July 1, 2006 and during each succeeding State fiscal  
7 year in which the authority has outstanding bonds or refunding  
8 bonds which have been issued pursuant to this act or is obligated to  
9 make any payments under any contract or agreement entered into by  
10 the authority pursuant to subsection c. of section 4 of this act, the  
11 State Treasurer shall credit to such Fund, on a monthly basis, an  
12 amount equivalent to the dedicated cigarette tax revenues received  
13 by the State during each calendar month of such fiscal year.  
14 Provided however, that:

15       (1) no credits of dedicated cigarette tax revenues shall be made  
16 to the Dedicated Cigarette Tax Revenue Fund in any State fiscal  
17 year until the deposits of \$150,000,000 of revenue from the  
18 cigarette tax required by section 4 of P.L.1997, c.264 (C.26:2H-  
19 18.58g) into the Health Care Subsidy Fund have been fully made in  
20 such fiscal year,

21       (2) in each month of a State fiscal year beginning after the  
22 month in which the final deposits of \$150,000,000 of revenue from  
23 the cigarette tax required by section 4 of P.L.1997, c.264 (C.26:2H-  
24 18.58g) into the Health Care Subsidy Fund have been fully made  
25 for such fiscal year, the State Treasurer shall credit to the Dedicated  
26 Cigarette Tax Revenue Fund an amount equivalent to all revenue  
27 collected by the State from the cigarette tax during such calendar  
28 month until the amount credited to the Dedicated Cigarette Tax  
29 Revenue Fund from the beginning of such fiscal year equals the  
30 amount that would have been credited to such Fund since the  
31 beginning of such fiscal year in accordance with the preceding  
32 sentence if the deposits of \$150,000,000 of revenue from the  
33 cigarette tax required by section 4 of P.L.1997, c.264 (C.26:2H-  
34 18.58g) into the Health Care Subsidy Fund were not required to  
35 have been made, and

36       (3) thereafter, in each month of a State fiscal year, the State  
37 Treasurer shall credit (a) to the Dedicated Cigarette Tax Revenue  
38 Fund an amount equivalent to the dedicated cigarette tax revenues  
39 and (b) to the Health Care Subsidy Fund an amount equivalent to all  
40 remaining revenue collected by the State from the cigarette tax  
41 during such calendar month; provided, however, that the amount so  
42 credited to the Health Care Subsidy Fund shall not exceed  
43 \$215,000,000 in the aggregate for all such months in the State fiscal  
44 year, and shall not exceed \$241,500,000 in the aggregate for all  
45 such months in State fiscal years commencing on or after July 1,  
46 2009.

47       b. In each State fiscal year during which the authority has  
48 outstanding bonds or refunding bonds which have been issued

1 pursuant to this act or is obligated to make any payments under any  
2 contract or agreement entered into by the authority pursuant to  
3 subsection c. of section 4 of this act, the State Treasurer shall pay to  
4 the authority solely from the Dedicated Cigarette Tax Revenue  
5 Fund in accordance with the provisions of any contract between the  
6 authority and the State Treasurer authorized and entered into  
7 pursuant to section 6 of this act, an amount equal to the debt service  
8 payable on the authority's then outstanding bonds or refunding  
9 bonds issued pursuant to this act during such fiscal year and any  
10 amounts required to be paid by the authority during such fiscal year  
11 under any contract or agreement entered into by the authority  
12 pursuant to subsection c. of section 4 of this act and such other  
13 additional amounts as shall be authorized by this act and required to  
14 be paid to the authority pursuant to any contract between the  
15 authority and the State Treasurer authorized and entered into  
16 pursuant to section 6 of this act; provided, however, that the  
17 payment of all such amounts to the authority shall be subject to and  
18 dependent upon appropriations being made from time to time by the  
19 Legislature of the amounts thereof for the purposes of this act.  
20 Notwithstanding any other provision of any law, rule, regulation or  
21 order to the contrary, the authority shall be paid only such amounts  
22 as shall be required by the provisions of any contract between the  
23 authority and the State Treasurer authorized and entered into  
24 pursuant to section 6 of this act and the incurrence of any obligation  
25 of the State under any such contract, including any payments to be  
26 made thereunder from the Dedicated Cigarette Tax Revenue Fund,  
27 shall be subject to and dependent upon appropriations being made  
28 from time to time by the Legislature for the purposes of this act.

29 c. If the authority no longer has outstanding bonds or refunding  
30 bonds which have been issued pursuant to this act and is no longer  
31 obligated to make any payments under any contract or agreement  
32 entered into by the authority pursuant to subsection c. of section 4  
33 of this act or to pay any other costs, fees, expenses, liabilities and  
34 other obligations incurred by the authority and the State pursuant to  
35 this act, then all monies on deposit in the Dedicated Cigarette Tax  
36 Revenue Fund shall be transferred to the General Fund.

37 (cf: P.L.2006, c.98, s.2)

38

39 5. This act shall take effect July 1, 2009.

40

41

42

STATEMENT

43

44 This bill increases the cigarette tax rate by 12.5 cents per pack of  
45 20 cigarettes effective July 1, 2009. Presently, the State excise tax  
46 on cigarettes is \$0.12875 per cigarette, or \$2.575 per pack. This  
47 bill raises the tax to \$0.135 per cigarette, or \$2.70 per pack.

**A4103 DIEGNAN**

**6**

- 1       The bill also increases the amount of cigarette tax revenue
- 2       dedicated annually to the Health Care Subsidy Fund by \$26,500,000
- 3       beginning in State fiscal year 2010.



ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4103

**STATE OF NEW JERSEY**

DATED: JUNE 15, 2009

The Assembly Budget Committee reports favorably Assembly Bill No. 4103.

The bill increases the cigarette tax rate by 12.5 cents per pack of 20 cigarettes effective July 1, 2009. Presently, the State excise tax on cigarettes is \$0.12875 per cigarette, or \$2.575 per pack. This bill raises the tax to \$0.135 per cigarette, or \$2.70 per pack.

The bill also increases the amount of cigarette tax revenue dedicated annually to the Health Care Subsidy Fund by \$26,500,000 beginning in State fiscal year 2010.

FISCAL IMPACT:

The Governor's FY 2010 Budget assumes that raising the tax rate per pack of cigarettes from \$2.575 to \$2.70 will increase FY 2010 State cigarette tax collections by \$26.5 million.

The Office of Legislative Services (OLS) estimates that the legislation will augment FY 2010 State revenues by \$30.7 million, FY 2011 revenues by \$29.8 million, and FY 2012 revenues by \$29.0 million. These figures include a cigarette tax and a sales and use tax component. The OLS projects that the cigarette tax revenue gain will be \$29.3 million in FY 2010, \$28.4 million in FY 2011, and \$27.6 million in FY 2012; and that the sales and use tax gain will be \$1.4 million in each of FY 2010, 2011, and 2012.

**LEGISLATIVE FISCAL ESTIMATE**  
**CORRECTED COPY**  
**ASSEMBLY, No. 4103**  
**STATE OF NEW JERSEY**  
**213th LEGISLATURE**

DATED: JUNE 24, 2009

**SUMMARY**

- Synopsis:** Raises cigarette tax rate from \$2.575 to \$2.70 per pack and dedicates additional revenue to the Health Care Subsidy Fund.
- Type of Impact:** An annually recurring revenue gain to the off-budget State Health Care Subsidy Fund, and a temporary annually recurring revenue gain to the State General Fund and the off-budget State Dedicated Cigarette Tax Revenue Fund to be followed by an annually recurring revenue loss to the State General Fund and the off-budget State Dedicated Cigarette Tax Revenue Fund.
- Agencies Affected:** Department of the Treasury;  
 Department of Health and Senior Services.

**Office of Legislative Services Estimate**

<b>Fiscal Impact</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Cigarette Tax Gain</b>	\$29,300,000	\$28,400,000	\$27,600,000	\$26,800,000	\$26,000,000
<b>Sales Tax Gain</b>	<u>\$1,400,000</u>	<u>\$1,400,000</u>	<u>\$1,400,000</u>	<u>\$1,300,000</u>	<u>\$1,300,000</u>
<b>Total Revenue Gain</b>	\$30,700,000	\$29,800,000	\$29,000,000	\$28,100,000	\$27,300,000

- The Office of Legislative Services (OLS) estimates that the bill would augment FY 2010 State revenues by \$30.7 million. Of this increase, \$29.3 million would come from the cigarette tax and \$1.4 million from the sales and use tax. While the sales and use tax gain would accrue to the State General Fund, the cigarette tax revenue gain would be apportioned as follows among the three State funds concerned: \$26.5 million would accrue to the off-budget Health Care Subsidy Fund, \$1.7 million to the General Fund, and \$1.1 million to the off-budget Dedicated Cigarette Tax Revenue Fund.
- The OLS projects that the tax increase would lower FY 2010 cigarette pack sales by 1.8 million, or 0.68 percent, from 274.8 million packs estimated to be sold absent the tax increase to 273.0 million packs sold with the tax increase. The estimated 0.68 percent consumption decline responds to an estimated 1.7 percent, or 12.5¢, increase in the average retail price of cigarettes from \$7.30 to \$7.425 per pack.

- The OLS expects the long-term decline in cigarette consumption to continue. As a result, starting in FY 2014, cigarette tax proceeds from the bill's rate increase would cease to cover the \$26.5 million the bill sets aside for the Health Care Subsidy Fund. To make up the difference, amounts would have to be transferred to the Health Care Subsidy Fund from base cigarette tax receipts deposited in the General Fund and the Dedicated Cigarette Tax Revenue Fund.
- The Executive has not submitted a fiscal estimate for the legislation. However, the Governor's FY 2010 Budget assumes that raising the tax rate per pack of cigarettes from \$2.575 to \$2.70 would increase FY 2010 State cigarette tax collections by \$26.5 million.

## **BILL DESCRIPTION**

Assembly Bill No. 4103 of 2009 raises the tax rate per pack of cigarettes from \$2.575 to \$2.70 and dedicates an additional \$26.5 million of annual cigarette tax collections to the off-budget Health Care Subsidy Fund.

## **FISCAL ANALYSIS**

### ***EXECUTIVE BRANCH***

The Executive has not submitted a fiscal estimate for the legislation. However, the Governor's FY 2010 Budget assumes that raising the tax rate from \$2.575 to \$2.70 per pack of cigarettes would increase FY 2010 State cigarette tax collections by \$26.5 million.

### ***OFFICE OF LEGISLATIVE SERVICES***

The OLS estimates that the bill would augment FY 2010 State revenues by \$30.7 million. Of this increase, \$29.3 million would come from the cigarette tax and \$1.4 million from the sales and use tax. While the sales and use tax gain would accrue to the State General Fund, the cigarette tax revenue gain would be apportioned as follows among the three State funds concerned: \$26.5 million to the off-budget Health Care Subsidy Fund, \$1.7 million to the General Fund, and \$1.1 million to the off-budget Dedicated Cigarette Tax Revenue Fund. The table on the next page displays the legislation's cumulative impact on the three funds from FY 2010 through FY 2015. The projections for the out years assume an annual consumption decline of 2.9 percent.

<b>Fund</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Health Care Subsidy Fund</b>	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000
<b>General Fund</b>	\$3,100,000	\$2,600,000	\$2,100,000	\$1,500,000	\$1,000,000	\$600,000
<b>Dedicated Cigarette Tax Revenue Fund</b>	\$1,100,000	\$700,000	\$400,000	\$100,000	(\$200,000)	(\$500,000)
<b>Total State Revenue Gain</b>	<b>\$30,700,000</b>	<b>\$29,800,000</b>	<b>\$29,000,000</b>	<b>\$28,100,000</b>	<b>\$27,300,000</b>	<b>\$26,600,000</b>

### **Cigarette Tax**

**Conclusion:** The OLS estimates that the bill would elevate FY 2010 State cigarette tax collections by \$29.3 million. Of this increase, \$26.5 million would accrue to the off-budget Health Care Subsidy Fund, \$1.7 million to the General Fund, and \$1.1 million to the off-budget Dedicated Cigarette Tax Revenue Fund. The table below shows the impact of the legislation on the three funds from FY 2010 through FY 2015.

The OLS notes that starting in FY 2014, estimated cigarette tax proceeds from the rate increase would no longer cover the \$26.5 million the bill sets aside for the Health Care Subsidy Fund. In FY 2014, the discrepancy would be \$500,000, as the tax increase would yield \$26.0 million compared to the \$26.5 million Health Care Subsidy Fund dedication. To make up the difference, amounts would have to be transferred to the Health Care Subsidy Fund from base cigarette tax receipts deposited in the General Fund and the Dedicated Cigarette Tax Revenue Fund. The gap would grow to \$1.2 million in FY 2015 and widen further thereafter.

<b>Fund</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Health Care Subsidy Fund</b>	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000
<b>General Fund</b>	\$1,700,000	\$1,200,000	\$700,000	\$200,000	(\$300,000)	(\$700,000)
<b>Dedicated Cigarette Tax Revenue Fund</b>	\$1,100,000	\$700,000	\$400,000	\$100,000	(\$200,000)	(\$500,000)
<b>Total State Revenue Gain</b>	<b>\$29,300,000</b>	<b>\$28,400,000</b>	<b>\$27,600,000</b>	<b>\$26,800,000</b>	<b>\$26,000,000</b>	<b>\$25,300,000</b>

**Method:** In May 2009, the OLS and the Department of the Treasury projected \$236.8 million in FY 2009 General Fund cigarette tax receipts. Adding the \$370.0 million that is already dedicated to the Health Care Subsidy Fund and the \$150.2 million that is estimated to go into the Dedicated Cigarette Tax Revenue Fund, the State would therefore collect \$757.0 million

in total cigarette tax revenue in FY 2009, which would represent about 294 million cigarette packs sold.

For FY 2010, the OLS discounts the \$757.0 million by 2.9 percent to account for the long-term decline in cigarette consumption. Accordingly, the State would collect \$735.0 million in FY 2010, which would represent the sale of 285.5 million cigarette packs and a revenue decline of \$22.0 million. Since amounts dedicated to the Health Care Subsidy Fund are fixed at \$370.0 million, the OLS allocates the \$22.0 million revenue loss proportionally between the General Fund and the Dedicated Cigarette Tax Revenue Fund (the General Fund accounts for 61.2 percent of total General Fund and Dedicated Cigarette Tax Revenue Fund collections and the Dedicated Cigarette Tax Revenue Fund for the remaining 28.8 percent).

Next, the OLS lowers the 285.5 million estimate of cigarette tax packs sold in FY 2010 by 3.72 percent in consideration of the federal 61.66¢ per pack cigarette tax increase effective April 1, 2009 under the Children's Health Insurance Program Reauthorization Act of 2009. Assuming a 0.4 price elasticity of demand for cigarettes and that the tax increase would up the average retail price per pack in New Jersey from \$6.68, as reported on February 26, 2009 by the Campaign for Tobacco-Free Kids, to \$7.30 (a 9.3 percent increase), the OLS arrives at the 3.72 percent consumption decline. Accordingly, the office estimates that 274.8 million cigarette packs would be sold in FY 2010 and that the State would collect \$707.7 million in cigarette tax proceeds. The FY 2010 State revenue loss due to the federal tax increase would thus amount to \$27.3 million, which the OLS allocates proportionally between the General Fund and the Dedicated Cigarette Tax Revenue Fund.

Lastly, the OLS reduces the number of cigarette packs sold by an additional 0.68 percent to account for the proposed 12.5¢ per pack State cigarette tax increase. Assuming a 0.4 price elasticity of demand for cigarettes and that the tax increase would push up the average retail price per pack in New Jersey from \$7.30 to \$7.425 (a 1.7 percent increase), the OLS computes the 0.68 percent consumption decline. Accordingly, the OLS estimates that 273.0 million cigarette packs would be sold in FY 2010 and that the State would collect \$737.0 million in cigarette tax proceeds at the higher tax rate. The FY 2010 revenue gain resulting from the State tax increase would thus be \$29.3 million, of which the OLS allocates \$26.5 million to the Health Care Subsidy Fund, \$1.7 million to the State General Fund, and \$1.1 million to the Dedicated Cigarette Tax Revenue Fund.

For the out years, the OLS assumes an annual 2.9 percent consumption decline and allocates the ensuing collections among the Health Care Subsidy Fund, the State General Fund, and the Dedicated Cigarette Tax Revenue Fund in conformity with existing law and the provisions of this bill.

### **Sales and Use Tax**

*Conclusion:* The OLS projects that the bill would prompt a \$1.4 million sales and use tax revenue gain to the State General Fund in FY 2010. The table on the following page shows the effect of the legislation on the sales tax from FY 2010 through FY 2015, broken out into the amount of revenue lost because of the tax increase-induced reduction of cigarette sales, and the amount of revenue gained as the sales tax would be applied on the 12.5¢ cigarette tax increase for each pack sold after the increase.

The OLS estimate of the bill's sales tax effect is predicated on the assumption that a) additional amounts spent on cigarettes after the tax increase would not be diverted from other taxable purchases, and that b) amounts no longer spent on cigarettes after the tax increase would not be diverted to other taxable purchases. However, given the paucity of information on spending patterns by cigarette purchasers, the OLS cannot assess the extent to which cigarette

buyers' continued purchases of cigarettes might displace any other taxable purchases or the extent to which cigarette buyers' scaled back purchases of cigarettes might translate into the purchase of other taxable goods and services.

Conceptually, if a consumer diverts from other taxable purchases the amounts the consumer expends on cigarettes to cover the tax increase, then the revenue gain in the below table would have to be trimmed accordingly. This would be so because the additional spending on cigarettes would in fact just be substituting for spending on other taxable items and services, and any spending shift among taxable items and services would be revenue-neutral to the State.

Conversely, if amounts spent on purchases of other taxable goods and services substituted for amounts that otherwise would have been spent on cigarettes, then the revenue loss in the table would have to be reduced accordingly. This would be so because the lost spending on cigarettes would in fact just be substituted for by spending on other taxable items and services, which spending shift among taxable items and services would be revenue-neutral to the State.

<b>OLS Estimate of Sales Tax Impact of A-4103 on State General Fund</b>						
<b>Sales Tax Impact</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Revenue Gain</b>	\$2,400,000	\$2,300,000	\$2,300,000	\$2,200,000	\$2,100,000	\$2,100,000
<b>Revenue Loss</b>	(\$1,000,000)	(\$900,000)	(\$900,000)	(\$900,000)	(\$800,000)	(\$800,000)
<b>Net Revenue Gain</b>	<b>\$1,400,000</b>	<b>\$1,400,000</b>	<b>\$1,400,000</b>	<b>\$1,300,000</b>	<b>\$1,300,000</b>	<b>\$1,300,000</b>

*Method:* As explained in the section on the bill's cigarette tax impact, the OLS estimates that 274.8 million cigarette packs would be sold in New Jersey in FY 2010 without the 12.5¢ tax increase and 273.0 million with the increase. The bill would thus depress FY 2010 cigarette pack sales by 1.8 million.

To calculate the FY 2010 sales tax gain attributable to the bill, the OLS multiplies the number of projected FY 2010 cigarette pack sales with the tax increase, 273.0 million, with the rate of the tax increase, 12.5¢, and applies the seven percent sales tax rate to that total. The OLS thus obtains a FY 2010 sales tax revenue gain of \$2.4 million.

To calculate the FY 2010 sales tax loss attributable to the bill, the OLS multiplies the number of cigarette pack sales projected to be lost in FY 2010 with the tax increase, 1.8 million, with the average retail price of a pack in New Jersey, \$7.30, and applies the seven percent sales tax rate to that total. The OLS thus obtains a FY 2010 sales tax revenue loss of \$1.0 million. The FY 2010 net effect of the gain and the loss therefore equals a \$1.4 million gain.

For the out years, the OLS reduces the revenue gain and loss by 2.9 percent per annum to account for the long-term consumption decline.

*Section:* Revenue, Finance and Appropriations

*Analyst:* Thomas Koenig  
Senior Fiscal Analyst

*Approved:* David J. Rosen  
Legislative Budget and Finance Officer

This fiscal estimate has been prepared pursuant to P.L. 1980, c.67 (C.52:13B-1 et seq.).

[Corrected Copy]

**SENATE, No. 2012**

**STATE OF NEW JERSEY**

**213th LEGISLATURE**

INTRODUCED JUNE 11, 2009

**Sponsored by:**  
**Senator RICHARD J. CODEY**  
**District 27 (Essex)**

**SYNOPSIS**

Raises cigarette tax rate from \$2.575 to \$2.70 per pack and dedicates additional revenue to the Health Care Subsidy Fund.

**CURRENT VERSION OF TEXT**

As introduced.



S2012 CODEY

2

1 AN ACT raising the cigarette tax rate and dedicating additional  
2 revenue to the Health Care Subsidy Fund, amending and  
3 supplementing P.L.1948, c.65 (C.54:40A-1 et seq.) and  
4 amending P.L.1997, c.264 and P.L.2004, c.68.

5

6 BE IT ENACTED by the Senate and General Assembly of the State  
7 of New Jersey:

8

9 1. Section 301 of P.L.1948, c.65 (C.54:40A-8) is amended to  
10 read as follows:

11 301. Tax imposed; rate. A tax is hereby imposed on the sale,  
12 use or possession for sale or use within this State of all cigarettes at  
13 the rate of ~~[\$0.12875]~~ \$0.135 for each cigarette.

14 (cf: P.L. 2006, c.37, s.1)

15

16 2. (New section) a. Each licensed retail dealer under  
17 P.L.1948, c.65 (C.54:40A-1 et seq.), shall, on or before the first day  
18 of the second month after the effective date of P.L. , c.  
19 (pending before the Legislature as this bill), file a return under oath  
20 or certified under the penalties of perjury with the director on forms  
21 furnished by the director, showing the amount of cigarettes in the  
22 licensed retail dealer's possession in the State at 12:01 a.m. on the  
23 effective date of P.L. , c. (pending before the Legislature as this  
24 bill), and shall at the time of filing that return pay the tax to the  
25 director. Failure to obtain such forms shall not be an excuse for the  
26 failure to make a return containing the information required by the  
27 director.

28 b. Notwithstanding the provisions of section 401 of P.L.1948,  
29 c.65 (C.54:40A-11) to the contrary, each licensed distributor and  
30 licensed wholesale dealer under P.L.1948, c.65 (C.54:40A-1 et  
31 seq.), shall, on or before the first day of the second month after the  
32 effective date of P.L. , c. (pending before the Legislature as this  
33 bill), file a return under oath or certified under the penalties of  
34 perjury with the director on forms furnished by the director,  
35 showing the amount of cigarettes in the dealer's or wholesaler's  
36 possession in the State at the close of business prior to the effective  
37 date of P.L. , c. (pending before the Legislature as this bill). An  
38 amount of tax shall be due equal to the additional tax on the number  
39 of cigarettes bearing stamps, and unaffixed stamps on hand. Each  
40 licensed distributor and licensed wholesale dealer shall at the time  
41 of filing that return pay the tax to the director. Failure to obtain  
42 such forms shall not be an excuse for the failure to make a return  
43 containing the information required by the director.

**EXPLANATION – Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.**

**Matter underlined thus is new matter.**



S2012 CODEY

3

1 3. Section 4 of P.L.1997, c.264 (C.26:2H-18.58g) is amended to  
2 read as follows:

3 4. Notwithstanding the provisions of any other law to the  
4 contrary,

5 a. commencing July 1, 1998 and ending June 30, 2006: after  
6 the deposit required pursuant to section 5 of P.L.1982, c.40  
7 (C.54:40A-37.1), the first \$150,000,000 of revenue collected  
8 annually from the cigarette tax imposed pursuant to P.L.1948, c.65  
9 (C.54:40A-1 et seq.) and the first \$5,000,000 of revenue collected  
10 annually from the "Tobacco Products Wholesale Sales and Use Tax  
11 Act," P.L.1990, c.39 (C.54:40B-1 et seq.), shall be deposited into  
12 the Health Care Subsidy Fund established pursuant to section 8 of  
13 P.L.1992, c.160 (C.26:2H-18.58); and the next \$390,000,000 of  
14 revenue collected annually from the cigarette tax imposed pursuant  
15 to P.L.1948, c.65 (C.54:40A-1 et seq.) shall be appropriated  
16 annually for health programs, and the next \$50,000,000 of revenue  
17 collected annually from the cigarette tax imposed pursuant to  
18 P.L.1948, c.65 (C.54:40A-1 et seq.) shall be appropriated annually  
19 to the New Jersey Economic Development Authority for payment of  
20 debt service incurred by the authority for school facilities projects  
21 and in fiscal years commencing July 1, 2002 and July 1, 2003, the  
22 next \$30,000,000 of revenue collected annually from the cigarette  
23 tax imposed pursuant to P.L.1948, c.65 (C.54:40A-1 et seq.) shall  
24 be directed to the Department of Health and Senior Services to fund  
25 anti-smoking initiatives, except that the amount shall be  
26 \$40,000,000 in the fiscal year commencing July 1, 2004 and  
27 \$45,000,000 in the fiscal year commencing July 1, 2005; and

28 b. commencing with fiscal years beginning on and after July 1,  
29 2006, after the deposit required pursuant to section 5 of P.L.1982,  
30 c.40 (C.54:40A-37.1), the first \$150,000,000 of revenue collected  
31 annually from the cigarette tax imposed pursuant to P.L.1948, c.65  
32 (C.54:40A-1 et seq.) and the first \$5,000,000 of revenue collected  
33 annually from the "Tobacco Products Wholesale Sales and Use Tax  
34 Act," P.L.1990, c.39 (C.54:40B-1 et seq.), shall be deposited into  
35 the Health Care Subsidy Fund established pursuant to section 8 of  
36 P.L.1992, c.160 (C.26:2H-18.58). In addition, commencing with  
37 fiscal years beginning on and after July 1, 2006 but before July 1,  
38 2009, there shall be deposited \$215,000,000 of revenue collected  
39 annually from the cigarette tax imposed pursuant to P.L.1948, c.65  
40 (C.54:40A-1 et seq.) in accordance with the provisions of section 5  
41 of P.L.2004, c.68 (C.34:1B-21.20), and, commencing with fiscal  
42 years beginning on and after July 1, 2009, there shall be deposited  
43 \$241,500,000 of revenue collected annually from the cigarette tax  
44 imposed pursuant to P.L.1948, c.65 (C.54:40A-1 et seq.) in  
45 accordance with the provisions of section 5 of P.L.2004, c.68  
46 (C.34:1B-21.20).

47 (cf. P.L.2006, c.98, s.1)

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1       4. Section 5 of P.L.2004, c.68 (C.34:1B-21.20) is amended to  
2 read as follows:

3       5. a. There is hereby created and established in the Department  
4 of the Treasury a separate nonlapsing fund to be known as the  
5 "Dedicated Cigarette Tax Revenue Fund." During the State fiscal  
6 year beginning July 1, 2006 and during each succeeding State fiscal  
7 year in which the authority has outstanding bonds or refunding  
8 bonds which have been issued pursuant to this act or is obligated to  
9 make any payments under any contract or agreement entered into by  
10 the authority pursuant to subsection c. of section 4 of this act, the  
11 State Treasurer shall credit to such Fund, on a monthly basis, an  
12 amount equivalent to the dedicated cigarette tax revenues received  
13 by the State during each calendar month of such fiscal year.  
14 Provided however, that:

15       (1) no credits of dedicated cigarette tax revenues shall be made  
16 to the Dedicated Cigarette Tax Revenue Fund in any State fiscal  
17 year until the deposits of \$150,000,000 of revenue from the  
18 cigarette tax required by section 4 of P.L.1997, c.264 (C.26:2H-  
19 18.58g) into the Health Care Subsidy Fund have been fully made in  
20 such fiscal year,

21       (2) in each month of a State fiscal year beginning after the  
22 month in which the final deposits of \$150,000,000 of revenue from  
23 the cigarette tax required by section 4 of P.L.1997, c.264 (C.26:2H-  
24 18.58g) into the Health Care Subsidy Fund have been fully made  
25 for such fiscal year, the State Treasurer shall credit to the Dedicated  
26 Cigarette Tax Revenue Fund an amount equivalent to all revenue  
27 collected by the State from the cigarette tax during such calendar  
28 month until the amount credited to the Dedicated Cigarette Tax  
29 Revenue Fund from the beginning of such fiscal year equals the  
30 amount that would have been credited to such Fund since the  
31 beginning of such fiscal year in accordance with the preceding  
32 sentence if the deposits of \$150,000,000 of revenue from the  
33 cigarette tax required by section 4 of P.L.1997, c.264 (C.26:2H-  
34 18.58g) into the Health Care Subsidy Fund were not required to  
35 have been made, and

36       (3) thereafter, in each month of a State fiscal year, the State  
37 Treasurer shall credit (a) to the Dedicated Cigarette Tax Revenue  
38 Fund an amount equivalent to the dedicated cigarette tax revenues  
39 and (b) to the Health Care Subsidy Fund an amount equivalent to all  
40 remaining revenue collected by the State from the cigarette tax  
41 during such calendar month; provided, however, that the amount so  
42 credited to the Health Care Subsidy Fund shall not exceed  
43 \$215,000,000 in the aggregate for all such months in the State fiscal  
44 year, and shall not exceed \$241,500,000 in the aggregate for all  
45 such months in State fiscal years commencing on or after July 1,  
46 2009.

47       b. In each State fiscal year during which the authority has  
48 outstanding bonds or refunding bonds which have been issued

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5

1 pursuant to this act or is obligated to make any payments under any  
2 contract or agreement entered into by the authority pursuant to  
3 subsection c. of section 4 of this act, the State Treasurer shall pay to  
4 the authority solely from the Dedicated Cigarette Tax Revenue  
5 Fund in accordance with the provisions of any contract between the  
6 authority and the State Treasurer authorized and entered into  
7 pursuant to section 6 of this act, an amount equal to the debt service  
8 payable on the authority's then outstanding bonds or refunding  
9 bonds issued pursuant to this act during such fiscal year and any  
10 amounts required to be paid by the authority during such fiscal year  
11 under any contract or agreement entered into by the authority  
12 pursuant to subsection c. of section 4 of this act and such other  
13 additional amounts as shall be authorized by this act and required to  
14 be paid to the authority pursuant to any contract between the  
15 authority and the State Treasurer authorized and entered into  
16 pursuant to section 6 of this act; provided, however, that the  
17 payment of all such amounts to the authority shall be subject to and  
18 dependent upon appropriations being made from time to time by the  
19 Legislature of the amounts thereof for the purposes of this act.  
20 Notwithstanding any other provision of any law, rule, regulation or  
21 order to the contrary, the authority shall be paid only such amounts  
22 as shall be required by the provisions of any contract between the  
23 authority and the State Treasurer authorized and entered into  
24 pursuant to section 6 of this act and the incurrence of any obligation  
25 of the State under any such contract, including any payments to be  
26 made thereunder from the Dedicated Cigarette Tax Revenue Fund,  
27 shall be subject to and dependent upon appropriations being made  
28 from time to time by the Legislature for the purposes of this act.

29 c. If the authority no longer has outstanding bonds or refunding  
30 bonds which have been issued pursuant to this act and is no longer  
31 obligated to make any payments under any contract or agreement  
32 entered into by the authority pursuant to subsection c. of section 4  
33 of this act or to pay any other costs, fees, expenses, liabilities and  
34 other obligations incurred by the authority and the State pursuant to  
35 this act, then all monies on deposit in the Dedicated Cigarette Tax  
36 Revenue Fund shall be transferred to the General Fund.  
37 (cf: P.L.2006, c.98, s.2)

38

39 5. This act shall take effect July 1, 2009.

40

41

42

STATEMENT

43

44 This bill increases the cigarette tax rate by 12.5 cents per pack of  
45 20 cigarettes effective July 1, 2009. Presently, the State excise tax  
46 on cigarettes is \$0.12875 per cigarette, or \$2.575 per pack. This  
47 bill raises the tax to \$0.135 per cigarette, or \$2.70 per pack.

**S2012 CODEY**

6

- 1       The bill also increases the amount of cigarette tax revenue
- 2       dedicated annually to the Health Care Subsidy Fund by \$26,500,000
- 3       beginning in State fiscal year 2010.

# SENATE BUDGET AND APPROPRIATIONS COMMITTEE

## STATEMENT TO

### SENATE, No. 2012

# STATE OF NEW JERSEY

DATED: JUNE 15, 2009

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 2012.

This bill increases the cigarette tax rate by 12.5 cents per pack of 20 cigarettes effective July 1, 2009. Presently, the State excise tax on cigarettes is \$0.12875 per cigarette, or \$2.575 per pack. This bill raises the tax to \$0.135 per cigarette, or \$2.70 per pack.

The bill also increases the amount of cigarette tax revenue dedicated annually to the Health Care Subsidy Fund by \$26,500,000 beginning in State fiscal year 2010.

#### FISCAL IMPACT:

The Governor's FY 2010 Budget assumes that raising the tax rate per pack of cigarettes from \$2.575 to \$2.70 will increase FY 2010 State cigarette tax collections by \$26.5 million.

The Office of Legislative Services (OLS) estimates that the legislation will augment FY 2010 State revenues by \$30.7 million, FY 2011 revenues by \$29.8 million, and FY 2012 revenues by \$29.0 million. These figures include a cigarette tax and a sales and use tax component. The OLS projects that the cigarette tax revenue gain will be \$29.3 million in FY 2010, \$28.4 million in FY 2011, and \$27.6 million in FY 2012; and that the sales and use tax gain will be \$1.4 million in each of FY 2010, 2011, and 2012.

**LEGISLATIVE FISCAL ESTIMATE**  
**CORRECTED COPY**  
**SENATE, No. 2012**  
**STATE OF NEW JERSEY**  
**213th LEGISLATURE**

DATED: JUNE 24, 2009

**SUMMARY**

- Synopsis:** Raises cigarette tax rate from \$2.575 to \$2.70 per pack and dedicates additional revenue to the Health Care Subsidy Fund.
- Type of Impact:** An annually recurring revenue gain to the off-budget State Health Care Subsidy Fund, and a temporary annually recurring revenue gain to the State General Fund and the off-budget State Dedicated Cigarette Tax Revenue Fund to be followed by an annually recurring revenue loss to the State General Fund and the off-budget State Dedicated Cigarette Tax Revenue Fund.
- Agencies Affected:** Department of the Treasury;  
 Department of Health and Senior Services.

**Office of Legislative Services Estimate**

<b>Fiscal Impact</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Cigarette Tax Gain</b>	\$29,300,000	\$28,400,000	\$27,600,000	\$26,800,000	\$26,000,000
<b>Sales Tax Gain</b>	\$1,400,000	\$1,400,000	\$1,400,000	\$1,300,000	\$1,300,000
<b>Total Revenue Gain</b>	\$30,700,000	\$29,800,000	\$29,000,000	\$28,100,000	\$27,300,000

- The Office of Legislative Services (OLS) estimates that the bill would augment FY 2010 State revenues by \$30.7 million. Of this increase, \$29.3 million would come from the cigarette tax and \$1.4 million from the sales and use tax. While the sales and use tax gain would accrue to the State General Fund, the cigarette tax revenue gain would be apportioned as follows among the three State funds concerned: \$26.5 million would accrue to the off-budget Health Care Subsidy Fund, \$1.7 million to the General Fund, and \$1.1 million to the off-budget Dedicated Cigarette Tax Revenue Fund.
- The OLS projects that the tax increase would lower FY 2010 cigarette pack sales by 1.8 million, or 0.68 percent, from 274.8 million packs estimated to be sold absent the tax increase to 273.0 million packs sold with the tax increase. The estimated 0.68 percent consumption decline responds to an estimated 1.7 percent, or 12.5¢, increase in the average retail price of cigarettes from \$7.30 to \$7.425 per pack.

- The OLS expects the long-term decline in cigarette consumption to continue. As a result, starting in FY 2014, cigarette tax proceeds from the bill's rate increase would cease to cover the \$26.5 million the bill sets aside for the Health Care Subsidy Fund. To make up the difference, amounts would have to be transferred to the Health Care Subsidy Fund from base cigarette tax receipts deposited in the General Fund and the Dedicated Cigarette Tax Revenue Fund.
- The Executive has not submitted a fiscal estimate for the legislation. However, the Governor's FY 2010 Budget assumes that raising the tax rate per pack of cigarettes from \$2.575 to \$2.70 would increase FY 2010 State cigarette tax collections by \$26.5 million.

### **BILL DESCRIPTION**

Senate Bill No. 2012 of 2009 raises the tax rate per pack of cigarettes from \$2.575 to \$2.70 and dedicates an additional \$26.5 million of annual cigarette tax collections to the off-budget Health Care Subsidy Fund.

### **FISCAL ANALYSIS**

#### ***EXECUTIVE BRANCH***

The Executive has not submitted a fiscal estimate for the legislation. However, the Governor's FY 2010 Budget assumes that raising the tax rate from \$2.575 to \$2.70 per pack of cigarettes would increase FY 2010 State cigarette tax collections by \$26.5 million.

#### ***OFFICE OF LEGISLATIVE SERVICES***

The OLS estimates that the bill would augment FY 2010 State revenues by \$30.7 million. Of this increase, \$29.3 million would come from the cigarette tax and \$1.4 million from the sales and use tax. While the sales and use tax gain would accrue to the State General Fund, the cigarette tax revenue gain would be apportioned as follows among the three State funds concerned: \$26.5 million to the off-budget Health Care Subsidy Fund, \$1.7 million to the General Fund, and \$1.1 million to the off-budget Dedicated Cigarette Tax Revenue Fund. The table on the next page displays the legislation's cumulative impact on the three funds from FY 2010 through FY 2015. The projections for the out years assume an annual consumption decline of 2.9 percent.

<b>OLS Estimate of Cumulative Impact of S-2012 on Affected State Funds</b>						
<b>Fund</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>
<b>Health Care Subsidy Fund</b>	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000
<b>General Fund</b>	\$3,100,000	\$2,600,000	\$2,100,000	\$1,500,000	\$1,000,000	\$600,000
<b>Dedicated Cigarette Tax Revenue Fund</b>	\$1,100,000	\$700,000	\$400,000	\$100,000	(\$200,000)	(\$500,000)
<b>Total State Revenue Gain</b>	<b>\$30,700,000</b>	<b>\$29,800,000</b>	<b>\$29,000,000</b>	<b>\$28,100,000</b>	<b>\$27,300,000</b>	<b>\$26,600,000</b>

### Cigarette Tax

*Conclusion:* The OLS estimates that the bill would elevate FY 2010 State cigarette tax collections by \$29.3 million. Of this increase, \$26.5 million would accrue to the off-budget Health Care Subsidy Fund, \$1.7 million to the General Fund, and \$1.1 million to the off-budget Dedicated Cigarette Tax Revenue Fund. The table below shows the impact of the legislation on the three funds from FY 2010 through FY 2015.

The OLS notes that starting in FY 2014, estimated cigarette tax proceeds from the rate increase would no longer cover the \$26.5 million the bill sets aside for the Health Care Subsidy Fund. In FY 2014, the discrepancy would be \$500,000, as the tax increase would yield \$26.0 million compared to the \$26.5 million Health Care Subsidy Fund dedication. To make up the difference, amounts would have to be transferred to the Health Care Subsidy Fund from base cigarette tax receipts deposited in the General Fund and the Dedicated Cigarette Tax Revenue Fund. The gap would grow to \$1.2 million in FY 2015 and widen further thereafter.

<b>OLS Estimate of Cigarette Tax Impact of S-2012 on Affected State Funds</b>						
<b>Fund</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>
<b>Health Care Subsidy Fund</b>	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000	\$26,500,000
<b>General Fund</b>	\$1,700,000	\$1,200,000	\$700,000	\$200,000	(\$300,000)	(\$700,000)
<b>Dedicated Cigarette Tax Revenue Fund</b>	\$1,100,000	\$700,000	\$400,000	\$100,000	(\$200,000)	(\$500,000)
<b>Total State Revenue Gain</b>	<b>\$29,300,000</b>	<b>\$28,400,000</b>	<b>\$27,600,000</b>	<b>\$26,800,000</b>	<b>\$26,000,000</b>	<b>\$25,300,000</b>

*Method:* In May 2009, the OLS and the Department of the Treasury projected \$236.8 million in FY 2009 General Fund cigarette tax receipts. Adding the \$370.0 million that is already dedicated to the Health Care Subsidy Fund and the \$150.2 million that is estimated to go into the Dedicated Cigarette Tax Revenue Fund, the State would therefore collect \$757.0 million



in total cigarette tax revenue in FY 2009, which would represent about 294 million cigarette packs sold.

For FY 2010, the OLS discounts the \$757.0 million by 2.9 percent to account for the long-term decline in cigarette consumption. Accordingly, the State would collect \$735.0 million in FY 2010, which would represent the sale of 285.5 million cigarette packs and a revenue decline of \$22.0 million. Since amounts dedicated to the Health Care Subsidy Fund are fixed at \$370.0 million, the OLS allocates the \$22.0 million revenue loss proportionally between the General Fund and the Dedicated Cigarette Tax Revenue Fund (the General Fund accounts for 61.2 percent of total General Fund and Dedicated Cigarette Tax Revenue Fund collections and the Dedicated Cigarette Tax Revenue Fund for the remaining 28.8 percent).

Next, the OLS lowers the 285.5 million estimate of cigarette tax packs sold in FY 2010 by 3.72 percent in consideration of the federal 61.66¢ per pack cigarette tax increase effective April 1, 2009 under the Children's Health Insurance Program Reauthorization Act of 2009. Assuming a 0.4 price elasticity of demand for cigarettes and that the tax increase would up the average retail price per pack in New Jersey from \$6.68, as reported on February 26, 2009 by the Campaign for Tobacco-Free Kids, to \$7.30 (a 9.3 percent increase), the OLS arrives at the 3.72 percent consumption decline. Accordingly, the office estimates that 274.8 million cigarette packs would be sold in FY 2010 and that the State would collect \$707.7 million in cigarette tax proceeds. The FY 2010 State revenue loss due to the federal tax increase would thus amount to \$27.3 million, which the OLS allocates proportionally between the General Fund and the Dedicated Cigarette Tax Revenue Fund.

Lastly, the OLS reduces the number of cigarette packs sold by an additional 0.68 percent to account for the proposed 12.5¢ per pack State cigarette tax increase. Assuming a 0.4 price elasticity of demand for cigarettes and that the tax increase would push up the average retail price per pack in New Jersey from \$7.30 to \$7.425 (a 1.7 percent increase), the OLS computes the 0.68 percent consumption decline. Accordingly, the OLS estimates that 273.0 million cigarette packs would be sold in FY 2010 and that the State would collect \$737.0 million in cigarette tax proceeds at the higher tax rate. The FY 2010 revenue gain resulting from the State tax increase would thus be \$29.3 million, of which the OLS allocates \$26.5 million to the Health Care Subsidy Fund, \$1.7 million to the State General Fund, and \$1.1 million to the Dedicated Cigarette Tax Revenue Fund.

For the out years, the OLS assumes an annual 2.9 percent consumption decline and allocates the ensuing collections among the Health Care Subsidy Fund, the State General Fund, and the Dedicated Cigarette Tax Revenue Fund in conformity with existing law and the provisions of this bill.

### **Sales and Use Tax**

*Conclusion:* The OLS projects that the bill would prompt a \$1.4 million sales and use tax revenue gain to the State General Fund in FY 2010. The table on the following page shows the effect of the legislation on the sales tax from FY 2010 through FY 2015, broken out into the amount of revenue lost because of the tax increase-induced reduction of cigarette sales, and the amount of revenue gained as the sales tax would be applied on the 12.5¢ cigarette tax increase for each pack sold after the increase.

The OLS estimate of the bill's sales tax effect is predicated on the assumption that a) additional amounts spent on cigarettes after the tax increase would not be diverted from other taxable purchases, and that b) amounts no longer spent on cigarettes after the tax increase would not be diverted to other taxable purchases. However, given the paucity of information on spending patterns by cigarette purchasers, the OLS cannot assess the extent to which cigarette

buyers' continued purchases of cigarettes might displace any other taxable purchases or the extent to which cigarette buyers' scaled back purchases of cigarettes might translate into the purchase of other taxable goods and services.

Conceptually, if a consumer diverts from other taxable purchases the amounts the consumer expends on cigarettes to cover the tax increase, then the revenue gain in the below table would have to be trimmed accordingly. This would be so because the additional spending on cigarettes would in fact just be substituting for spending on other taxable items and services, and any spending shift among taxable items and services would be revenue-neutral to the State.

Conversely, if amounts spent on purchases of other taxable goods and services substituted for amounts that otherwise would have been spent on cigarettes, then the revenue loss in the table would have to be reduced accordingly. This would be so because the lost spending on cigarettes would in fact just be substituted for by spending on other taxable items and services, which spending shift among taxable items and services would be revenue-neutral to the State.

<b>OLS Estimate of Sales Tax Impact of S-2012 on State General Fund</b>						
<b>Sales Tax Impact</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>
<b>Revenue Gain</b>	\$2,400,000	\$2,300,000	\$2,300,000	\$2,200,000	\$2,100,000	\$2,100,000
<b>Revenue Loss</b>	<u>(\$1,000,000)</u>	<u>(\$900,000)</u>	<u>(\$900,000)</u>	<u>(\$900,000)</u>	<u>(\$800,000)</u>	<u>(\$800,000)</u>
<b>Net Revenue Gain</b>	<b>\$1,400,000</b>	<b>\$1,400,000</b>	<b>\$1,400,000</b>	<b>\$1,300,000</b>	<b>\$1,300,000</b>	<b>\$1,300,000</b>

*Method:* As explained in the section on the bill's cigarette tax impact, the OLS estimates that 274.8 million cigarette packs would be sold in New Jersey in FY 2010 without the 12.5¢ tax increase and 273.0 million with the increase. The bill would thus depress FY 2010 cigarette pack sales by 1.8 million.

To calculate the FY 2010 sales tax gain attributable to the bill, the OLS multiplies the number of projected FY 2010 cigarette pack sales with the tax increase, 273.0 million, with the rate of the tax increase, 12.5¢, and applies the seven percent sales tax rate to that total. The OLS thus obtains a FY 2010 sales tax revenue gain of \$2.4 million.

To calculate the FY 2010 sales tax loss attributable to the bill, the OLS multiplies the number of cigarette pack sales projected to be lost in FY 2010 with the tax increase, 1.8 million, with the average retail price of a pack in New Jersey, \$7.30, and applies the seven percent sales tax rate to that total. The OLS thus obtains a FY 2010 sales tax revenue loss of \$1.0 million. The FY 2010 net effect of the gain and the loss therefore equals a \$1.4 million gain.

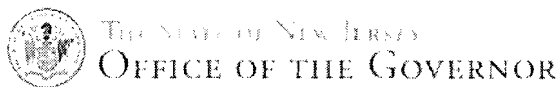
For the out years, the OLS reduces the revenue gain and loss by 2.9 percent per annum to account for the long-term consumption decline.

*Section:* Revenue, Finance and Appropriations

*Analyst:* Thomas Koenig  
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This fiscal estimate has been prepared pursuant to P.L. 1980, c.67 (C.52:13B-1 et seq.).



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JON S. CORZINE  
Governor

**For Immediate Release:**  
Date: June 29, 2009

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### Governor Corzine Signs \$29 Billion State Budget That Reflects Ethic of Shared Responsibility

*Amid deep national recession, FY2010 budget makes the right choices: It prioritizes education, health care and seniors at the same time it provides unprecedented relief from property taxes to all New Jerseyans and direct tax rebates to 1 million working families.*

**TRENTON** – Governor Jon S. Corzine today signed legislation adopting a \$29 billion budget for FY2010 that is \$1.8 billion less than the first budget he signed four years ago.

"For over six decades, New Jersey Governors and Legislators have talked about the need to make state government leaner," Governor Corzine said. "But for over six decades, the size and cost have government have continued to grow – until now. The budget I signed is \$1.8 billion smaller than the first budget I signed in 2006 and is \$4 billion smaller than last year's budget, yet we have expanded my administration's unequalled investment in direct property tax relief for working families – \$7 billion in four years. We have proven that government can do more with less."

The bare-bones appropriations act (A-4100/S-2010) is an unprecedented reduction in the size of State government. Every department, agency and authority was ordered to make cuts. There were more than 850 line items eliminated or reduced – everything from \$300 million saved by renegotiating state worker union contracts to cutting up gas cards to consolidating office space and reducing the number of cars in the state motor pool.

Scarce resources presented tough choices, but the governor and Democratic lawmakers prioritized funding for education, health care and senior citizens. The budget also provides much-needed property tax relief for homeowners, including 1 million who will receive direct relief through rebate checks of as much as \$900 per household.

"Today, we can be proud of a budget that honors our commitment to our children, seniors, and the most vulnerable," Governor Corzine said. "It's a budget that protects the working-class taxpayer and one which asks a little more of those who can afford it. This budget reflects an ethic of shared responsibility."

The Governor thanked Democratic leaders in the Senate and the General Assembly for their efforts in holding public hearings and securing passage of the final spending plan.

"Everyone involved in crafting this year's budget should be commended for the level of civility and cooperation employed in a year that could have easily devolved into chaos," said Senate President Richard J. Codey (D-Essex). "Instead, what we have is a budget that is \$4 billion leaner, yet still provides vital services to our residents, and is being signed into law well before our deadline."

"We have always said that we would seek to provide as much property tax relief as possible, and this budget honors that commitment to put property taxpayers first," said Assembly Speaker Joseph J. Roberts, Jr. (D-Camden).

"Even with historic cuts, this budget focuses on our core mission as a state – educating our children, improving public health, keeping residents safe and providing vital property tax relief to middle-class families," said Assemblyman Louis Greenwald (D-Camden), chairman of the Assembly Budget Committee. "As other states continue to make unconscionable cuts to their residents' core values, we continue to strengthen ours."

#### More Information

[Ten Good Things in the FY2010 Budget](#)

[Video: What's in the FY2010 Budget?](#)

[FY2010 Budget Documents](#)

[Governor Recommends Restoration of Property Tax Relief](#)

The Governor earlier signed other budget related measures including:

- A-4101/S-2011 (Greenwald/Buono) – Makes FY 2009 supplemental appropriations totaling \$20,768,000 reduces FY 2009 appropriations by \$27,500,000 and amends and supplements various language provisions affecting appropriations in FY 2009
- A-4102/S-2015 (Watson Coleman/Buono) – Temporarily increases income tax rates for taxpayers with income exceeding \$400,000, temporarily adjusts property tax deduction for certain taxpayers with income exceeding \$150,000 and taxes New Jersey Lottery Prizes exceeding \$10,000
- A-4103/S-2012 (Diegnan/Codey) – Raises cigarette tax rate from \$2.575 to \$2.70 per pack and dedicates additional revenue to the Health Care Subsidy Fund
- A-4104/S-2013 (Wisniewski/Weinberg) – Increase tax rates on liquor and wines, vermouth, sparkling wines and hard cider and dedicates additional revenue to the Health Care Subsidy Fund
- A-4105/S-2014 (Pou, Evans/Sweeney) – Provides one year extension of 4% surcharge on corporation business tax liability and decouples corporation business tax from federal Internal Revenue Code deferral of certain discharge of indebtedness income
- A-4106/S-2018 (Green, Jasey/Sweeney) – Directs NJHMFA to transfer up to \$12 million in unencumbered reserves to the State for rental assistance program and makes appropriation
- A-4107/S-2017 (Quigley, Chivukula, Coutinho/Sweeney) – Directs EDA to transfer up to \$22 million in unencumbered reserves to qualifying capital investment grant component of InvestNJ Business Grant Program
- A-4108/S-2016 (Cryan, Coutinho/Sweeney) – Concerns taxation of certain lines of insurance and dedicates certain additional revenues to the Health Care Subsidy Fund
- S-2020/S-A-4109 (Codey/McKeon, Chivukula) – Provides for the allocation of the State's annual bond volume limits on certain bonds in accordance with the federal American Recovery and Reinvestment Act of 2009
- A-3973/S-2797 (McKeon, Gusciora/Beach, O'Toole) – Appropriates funds to DEP for clean water environmental infrastructure projects

Budget charts can be viewed on the New Jersey State Treasury web page,  
<http://www.state.nj.us/treasury/omb/publications/10budget/index.shtml>

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