FISCAL TOPICS

Fiscal Services Division

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LSA
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Cigarette and Tobacco Tax Revenue

Cigarette and Tobacco Tax

During the 2007 Legislative Session, the cigarette and tobacco tax rates were increased with enactment of SF 128 (Cigarette and Tobacco Tax Increase Act). The law change was effective on March 16, 2007, and provided the following:

- Increased the cigarette tax rate from $0.36 per pack of 20 cigarettes to $1.36 (an increase of 277.8%).
- Increased the tobacco tax rate from 22.0% of the wholesale cost to 50.0% of the wholesale cost.
- Increased the tax on cigars from 22.0% of the wholesale cost to a rate of 50.0% of the wholesale price or $0.50 per cigar, whichever is less.
- Changed and increased the tax on moist snuff from a tax at the wholesale cost to a tax rate of $1.19 per ounce.
- Created the Health Care Trust Fund (HCTF) and specified that beginning in FY 2008, the first $127.6 million of cigarette and tobacco tax receipts deposited in the General Fund each year was to be appropriated annually to the HCTF.

Since the tax rate increase was enacted, two other significant events have had an impact on the State of Iowa's cigarette and tobacco tax revenue. This includes:

- Enactment of 2008 Iowa Acts, HF 2212 (Smokefree Air Act), which was implemented on July 1, 2008.
- Enactment of the federal government's cigarette and tobacco tax increase in 2009. The increase in the federal cigarette tax rate was approximately $0.62 per pack and also significantly increased the federal tax rate on other tobacco products.

Although the actual impact of these two events on Iowa cigarette and tobacco tax revenue is difficult to measure, the overall effect of the laws appears to have decreased Iowa cigarette tax revenue since peaking at $233.2 million in July 2008.

Health Care Trust Fund — General Fund

Beginning in FY 2008, the Iowa Code required the first $127.6 million of cigarette and tobacco receipts deposited in the General Fund to be appropriated to the HCTF within the fiscal year. The standing appropriation to the HCTF has been impacted by both General Fund across-the-board reductions and legislative changes. Changes to the HCTF include:
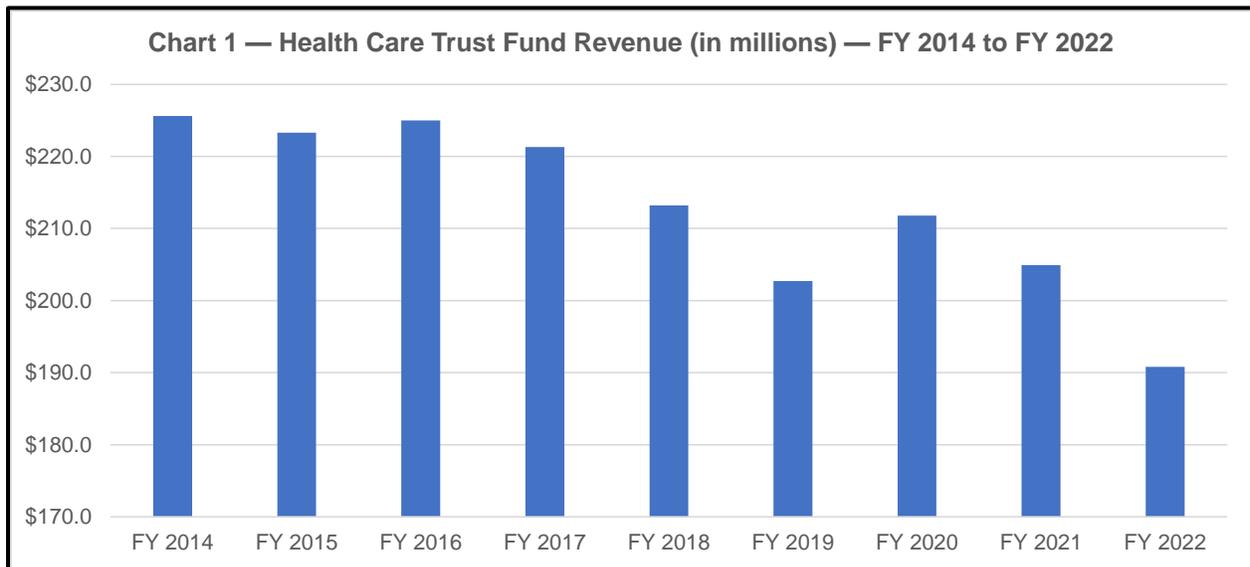
- A 1.5% General Fund across-the-board reduction resulting in a decrease of $1.9 million to the HCTF in FY 2009.
- A reduction in the standing appropriation beginning in FY 2010 with enactment of 2009 Iowa Acts, HF 811 (FY 2010 Health and Human Services Appropriations Act). The standing appropriation was reduced to $117.8 million. Additionally, the FY 2010 General Fund appropriation to the HCTF was reduced by an additional $11.8 million due to a 10.0% FY 2010 General Fund across-the-board reduction. The final FY 2010 appropriation to the HCTF totaled $106.0 million.

More Information

LSA Daily Receipts: legis.iowa.gov/publications/fiscal/dailyReceipts
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- The standing appropriation was reduced to $106.0 million beginning in FY 2011 with enactment of 2010 Iowa Acts, HF 2526 (FY 2011 Health and Human Services Appropriations Act).
- Beginning in FY 2012, the appropriation was eliminated, but the first $106.0 million of cigarette and tobacco tax revenue was deposited in the HCTF with the remainder deposited in the General Fund each fiscal year. This change resulted from enactment of SF 533 (FY 2012 Standing Appropriations Act) during the 2011 Legislative Session.
- Beginning in FY 2014, all cigarette and tobacco tax revenue was deposited in the HCTF to use for Medicaid. This change resulted from enactment of SF 446 (FY 2014 Health and Human Services Appropriations Act) during the 2013 Legislative Session.

Chart 1 displays cigarette and tobacco tax revenue deposited in the HCTF from FY 2014 through FY 2022. Revenue to the HCTF peaked at $225.6 million in FY 2014.

Chart 1 — Health Care Trust Fund Revenue (in millions) — FY 2014 to FY 2022

Related Statutes and Administrative Rules
Iowa Code sections 453A.35 and 453A.35A

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