

# ***Tobacco Taxes***

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**Background** Kentucky was the twentieth state to enact a tax on cigarettes, which became effective in 1936. The original cigarette excise tax rate was one cent per ten cents of the sales price. Over time, the “two-cents-per-package” tax gradually became a three-cent levy as more and more retailers began to charge above twenty cents per pack of cigarettes.

On July 1, 1960, a proportionate rate of two and one-half cents on each twenty cigarettes sold within the Commonwealth was assessed.

The 1970 General Assembly created the Tobacco Research Trust Fund. The legislation increased the cigarette excise tax by one-half cent per pack, to three cents per pack. The revenue generated by this tax increase was earmarked for the Tobacco Research Trust Fund.

In 1982, the General Assembly provided for a cigarette enforcement fee, in an amount calculated annually by Revenue, to recover applicable costs of enforcing the fair trade law and administering the cigarette tax law. The present rate is one-tenth of one cent per package of twenty cigarettes.

In 1994, the General Assembly enacted the Teen Tobacco Education Fund and provided that one-twentieth of one cent (\$0.0005) of the three-cent-per-pack revenue be used to offset the cost of the education efforts.

In 2000, the General Assembly enacted the Teen Tobacco Enforcement Fund and provided that one-twentieth of one cent of the three-cent-per-pack revenue be deposited in a trust and agency account to offset the costs of enforcement.

In 2005, the General Assembly enacted a cigarette surtax of a proportionate rate of twenty-six cents on each twenty cigarettes. An additional one-cent was enacted and dedicated to the Cancer Research Matching Fund. The two additional surtaxes bring Kentucky’s total tax on a pack of twenty cigarettes to thirty cents.

Additionally, a 7.5 percent gross receipts tax was imposed on other tobacco products and a tax on snuff was imposed at nine and one-half cents per unit.

In 2006, the General Assembly clarified the taxation of other tobacco products by making a distinction between moist snuff and dry snuff. Dry snuff is taxed at 7.5 percent as an other tobacco product (OTP). Moist snuff is taxed as snuff. Additionally, a new wholesale cigarette paper excise tax was created. The tax is twenty-five cents per package of 32 sheets of paper.

For FY07, tobacco tax collections deposited to the General Fund were \$177.4 million and represented 2.1 percent of total General Fund tax receipts.

<b>Current Tax Rate</b>	The tax rate, including both the cigarette excise tax and the cigarette surtax, is thirty (30) cents per package of twenty cigarettes. The other tobacco products tax is 7.5 percent of gross receipts. The tax on snuff is nine and one-half cents per unit.
<b>Tax Base</b>	Both the cigarette excise tax and the cigarette surtax are paid through the purchase of stamps or meter units from the Department of Revenue. These stamps must be placed on each package of cigarettes as evidence that the tax has been paid. For affixing the tax evidence, the wholesaler is generally allowed the equivalent of a 9.09 percent discount against only the cigarette excise tax when the evidence is purchased.
<b>Tax Due</b>	The wholesaler pays the tax at the time the tax stamps or meter units are purchased from the Department of Revenue. A monthly report is required by the twentieth of each month reflecting purchases and trafficking of cigarettes for the preceding month. A monthly report of other tobacco products and snuff is also due by the twentieth day of the succeeding month within which the transaction occurred.

**Table 20. Total Tobacco Tax Expenditures**

<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
\$1.3 million	\$1.3 million	\$1.3 million

**Tax Expenditures****1. Compensation Allowed Wholesaler**

*Kentucky Revised Statute 138.146, effective 1982*

For affixing the tax evidence to each package of cigarettes, the cigarette wholesaler is allowed an amount of tax evidence equal to thirty cents for each three dollars of tax evidence purchased. This converts to a 9.09 percent discount on the purchase of tax evidence.

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