

INTRODUCED: January 13, 2020

AN ORDINANCE No. 2020-006

To amend ch. 26, art. XVIII of the City Code, concerning cigarette taxes, by adding therein a new § 26-1279.1, concerning the establishment of a four percent cigarette tax discount on the sale of heat-applied City cigarette tax stamps, for the purpose of reducing the administrative costs for retailers.

\_\_\_\_\_  
Patron – Mayor Stoney

\_\_\_\_\_  
Approved as to form and legality  
by the City Attorney  
\_\_\_\_\_

PUBLIC HEARING: JAN 27 2020 AT 6 P.M.

THE CITY OF RICHMOND HEREBY ORDAINS:

§ 1. That Chapter 26, Article XVIII of the Code of the City of Richmond (2015) be and is hereby amended and reordained by **adding therein a new** section numbered 26-1279.1 as follows:

**Sec. 26-1279.1. Discount for heat-applied cigarette tax stamps.**

For the purpose of making stamps available for use, the Director shall prescribe, prepare, and sell stamps of such denominations and in such quantities as may be necessary for the payment of the tax imposed by this article. In the sale of such stamps, the Director shall allow a discount of

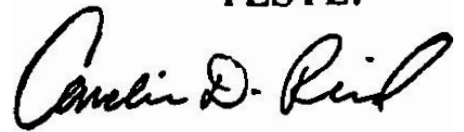
AYES:            9            NOES:            0            ABSTAIN: \_\_\_\_\_

ADOPTED:    JAN 27 2020    REJECTED: \_\_\_\_\_    STRICKEN: \_\_\_\_\_

four percent of the denominational or face value thereof to cover the costs which will be incurred in affixing the stamps to packages of cigarettes. In the event the printing by an authorized meter machine is used in lieu of gummed stamps, there shall be no discount given on the denominational or face value of the imprints of such stamps so printed by the meter machine.

§ 2. This ordinance shall be in force and effect upon adoption.

**A TRUE COPY:  
TESTE:**

A handwritten signature in black ink, appearing to read "Carolin D. Reed". The signature is written in a cursive style with a large initial 'C'.

**City Clerk**



CITY OF RICHMOND
INTRACITY CORRESPONDENCE

O & R REQUEST
4-9451
DEC 02 2019
Office of the Chief Administrative Officer

O&R REQUEST

DATE: December 2, 2019 EDITION: 1

TO: The Honorable Members of City Council

THROUGH: The Honorable Levar M. Stoney, Mayor

THROUGH: Lenora G. Reid, Acting Chief Administrative Officer

THROUGH: Jay A. Brown, Director of Budget & Strategic Planning

FROM: John B. Wack, Director of Finance

RE: Establishment of 4% Cigarette Tax Discount for Heat-Applied Stamps

ORD. OR RES. No.

Handwritten initials and date: 88 11/6/2020

Handwritten initials: JAB

Handwritten initials: JBN

RECEIVED

JAN 07 2020

OFFICE OF THE CITY ATTORNEY

PURPOSE: To amend City Code by adding a new section 26-1279.1 to establish a new 4% discount on the sale of heat-applied local cigarette tax stamps.

REASON: Cigarette distributors have indicated that they cannot absorb the full cost of affixing heat-applied cigarette tax stamps to be sold by retail establishments in the City. The allowance of a 4% discount, similar to what is allowed in many other Virginia localities, would be expected to be passed on to City retailers.

RECOMMENDATION: The City Administration recommends approval.

BACKGROUND: An analysis of eight Central and Eastern Virginia localities' Cigarette Tax Ordinances was performed regarding discount rates. This analysis showed that Richmond is unique, as it does not provide a discount to cover the distributors' cost of affixing stamps to packages of cigarettes. This additional cost is subsequently passed down the supply chain to retailers yielding in excess costs over the \$0.50 per pack tax.

On average, Central and Eastern Virginia localities provide a \$0.04 discount per pack to distributors to alleviate the cost of application inherent in levy collection. Summary analysis of the average as well as the observed range for per pack tax, discount rate, discount amount, and discount-adjusted tax is presented in the table on the following page.

Table 1 – Range and Average of Central and Eastern Virginia

	Low Value	High Value	Average
<b>Tax Amount Per Pack</b>	\$0.25	\$0.95	\$0.66
<b>Discount Rate</b>	2.9%	10.0%	5.8%
<b>Discount Amount</b>	\$0.01	\$0.08	\$0.04
<b>Discount-Adjusted Tax</b>	\$0.24	\$0.89	\$0.70

A discount rate of 4% implemented in March 2020 as recommended by staff would yield a revenue loss of approximately \$35,000 for the remainder of FY2020. During the upcoming FY2021 budget process, the Department of Finance can include the discount factor as well as the heat-applied stamp discount in revenue projections if adopted.

A 4% discount on heat-applied stamps will have minimal impact to projected revenues, minimize the levy collection cost burden to private industry, and bring Richmond into line with surrounding localities regarding Cigarette Tax discounts.

**FISCAL IMPACT / COST:** The allowance of a 4% discount for heat-applied cigarette tax stamps is estimated to reduce revenues by approximately \$35,000 in FY2020.

**FISCAL IMPLICATIONS:** The allowance for a discount is intended to reduce the administrative costs for retailers.

**BUDGET AMENDMENT NECESSARY:** No, cigarette tax stamp revenues are still projected to be above the budgeted amount with a 4% discount. FY2021 and future year revenues would be adjusted accordingly.

**REVENUE TO CITY:** Estimated \$35,000 reduction in FY2020 cigarette tax revenues, but revenues are anticipated to be above the budget for this source.

**DESIRED EFFECTIVE DATE:** March 1, 2020

**REQUESTED INTRODUCTION DATE:** January 13, 2020

**CITY COUNCIL PUBLIC HEARING DATE:** January 27, 2020

**REQUESTED AGENDA:** Consent

**RECOMMENDED COUNCIL COMMITTEE:** Finance and Economic Development

**CONSIDERATION BY OTHER GOVERNMENTAL ENTITIES:** None

**AFFECTED AGENCIES:** Department of Finance, Budget & Strategic Planning

**RELATIONSHIP TO EXISTING ORD. OR RES.:** 2019-059 (imposing cigarette tax)

**REQUIRED CHANGES TO WORK PROGRAM(S):** Finance Department will modify Cash Operations sale of cigarette tax stamps accordingly.

**ATTACHMENTS:** Proposed language for new Section 26-1279.1

**STAFF:** Jeff Crawford, Management Analyst Associate, 646-3056

Section 26-1279.1

For the purpose of making stamps available for use, the Director shall prescribe, prepare and shall sell, stamps of such denominations and in such quantities as may be necessary for the payment of the tax imposed by this article. In the sale of such stamps, the Director shall allow a discount of four percent of the denominational or face value thereof to cover the costs which will be incurred in affixing the stamps to packages of cigarettes. In the event the printing by an authorized meter machine is used in lieu of gummed stamps, there shall be no discount given on the denominational or face value of the imprints of such stamps so printed by the meter machine.