



Fiscal Note
Legislative Council Staff
Nonpartisan Services for Colorado’s Legislature

SB 25-056: REDUCE PREMIUM CIGAR EXCISE TAX RATE

Prime Sponsors:
Sen. Sullivan

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Fiscal note status: The fiscal note reflects the introduced bill.

Summary Information

Overview. The bill reduces the excise tax rate on premium cigars to 40 percent of the manufacturer’s list price beginning in FY 2025-26.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- State Expenditures
- State Transfers
- TABOR Refunds
- Local Government

Appropriations. For FY 2025-26, the bill requires an appropriation of \$50,301 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2025-26	Out Year FY 2026-27
State Revenue	-\$1,331,000	-\$1,398,000
State Expenditures	-\$1,555,699	-\$1,677,298
Transferred Funds	-\$1,606,000	-\$1,686,000
Change in TABOR Refunds	\$137,000	\$143,000
Change in State FTE	0.0 FTE	0.0 FTE

¹ Fund sources for these impacts are shown in the tables below.

**Table 1A
State Revenue**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund - Proposition EE Tax Revenue	-\$1,606,000	-\$1,686,000
General Fund - Statutory Tax Revenue	\$137,000	\$143,000
Cash Funds - Amendment 35 Tax Revenue	\$138,000	\$145,000
Total Revenue	-\$1,331,000	-\$1,398,000

**Table 1B
State Transfers**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	\$1,606,000	\$1,686,000
Preschool Programs Cash Fund	-\$1,606,000	-\$1,686,000
Net Transfer	\$0	\$0

**Table 1C
State Expenditures¹**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	\$50,301	\$8,702
Preschool Programs Cash Fund	-\$1,606,000	-\$1,686,000
Federal Funds	\$0	\$0
Centrally Appropriated	\$0	\$0
Total Expenditures	-\$1,555,699	-\$1,677,298
Total FTE	0.0 FTE	0.0 FTE

¹ The reduction it is assumed that the reduction in transferred funds to the Preschool Programs Cash Fund reduces expenditures by a corresponding amount; however, it may potentially reduce the amount saved or held in reserve instead.

Summary of Legislation

The bill eliminates the tax increase on premium cigars that is attributable to Proposition EE beginning in FY 2025-26. Under current law, three taxes are imposed on premium cigars, which total 56 percent of the manufacturer's list price and are scheduled to increase to 62 percent on July 1, 2027. By eliminating the tax increase from Proposition EE, the bill reduces the total tax rate to 40 percent of the manufacturer's list price on an ongoing basis.

Background

Under current law, all tobacco products other than cigarettes are subject to taxation at a rate of 56 percent of the manufacturer's list price. This is made up of three separate taxes:

- a statutory tax of 20 percent established in 1986;
- a constitutional tax of 20 percent established in 2005 by Amendment 35; and
- a 16 percent increase in the statutory tax beginning in 2021, established by Proposition EE (increasing to 22 percent on July 1, 2027).

Revenue from each of the three taxes has a different distribution formula. Revenue from the taxes created by Amendment 35 and Proposition EE are exempt from TABOR.

Assumptions

The fiscal note assumes that reducing the tax rate on premium cigars will have a positive impact on the number of premium cigars sold, increasing consumption by an estimated 7 percent. The increase in consumption will increase revenue from the statutory and Amendment 35 taxes, even though these tax rates are not impacted by the bill. To the extent that the impact on premium cigar consumption is higher or lower than this amount, the revenue impact will differ from what is estimated here.

Additionally, the fiscal note assumes that 8 percent of the tax revenue on tobacco products (excluding cigarettes) comes from taxation of premium cigars. To the extent that the actual portion of tobacco revenue coming from premium cigars is higher or lower than 8 percent, the revenue impact will differ from what is estimated here.

State Revenue

The bill reduces revenue on net by \$1.3 million in FY 2025-26, \$1.4 million in FY 2026-27, and increasing amounts in future years. This includes a decline in revenue from the Proposition EE tax, which is partially offset by an increase in cigar consumption that would increase revenue from the original statutory tax and Amendment 35 tax. The changes in revenue from each tax are detailed in Table 1A.

State Transfers

The bill reduces transfers from the General Fund to the Preschool Programs Cash Fund, via the 2020 Tax Holding Fund, by \$1.6 million in FY 2025-26 and \$1.7 million in FY 2026-27, the same amounts as in the Proposition EE revenue impact identified above.

State Expenditures

In total, the bill decreases state expenditures by \$1.6 million in FY 2025-26, \$1.7 million in FY 2026-27, and increasing amounts in future years. This include increases in General Fund expenditures in the Department of Revenue of \$50,301 in FY 2025-26 and \$8,702 in FY 2026-27 and later years, as well as a decrease in cash fund expenditures from the Preschool Programs Cash Fund due to lost revenue. The amount available to spend or save in the Department of Health Care Policy and Financing and Department of Public Health and Environment will also be affected due to increases in tax revenue from the original statutory tax and Amendment 35 tax.

Department of Revenue

The DOR requires computer programming and data reporting costs to implement the bill. Costs are associated with the creation of a unique tax rate for premium cigars relative to other non-cigarette tobacco products.

Computer Programming and Testing

For FY 2025-26 only, DOR will have one-time costs of \$41,523 for computer programming and testing. Programming costs are estimated at \$32,445, representing 140 hours of contract programming at a rate of \$231.75 per hour. Costs for ISD programming support are \$6,230, representing 178 hours of programming support at a rate of \$38 dollars. Costs for testing to ensure that programming changes are functioning properly are estimated at \$2,848, representing 89 hours of user acceptance testing at a rate of \$32 per hour.

Research and Analysis

The Office of Research and Analysis within DOR will expend \$8,778 in FY 2025-26 and \$8,702 in FY 2026-27 and ongoing to collect and report data on the new tax.

Department of Early Childhood

Based on the reduction in transfers to the Preschool Programs Cash Fund, the bill is estimated to decrease spending from the Preschool Programs Cash Fund by up to \$1.6 million in FY 2025-26, \$1.7 million in FY 2026-27, and increasing amounts in later years. Revenue in this fund is appropriated to Colorado Department of Early Childhood for the Colorado Preschool Program.

Department of Health Care Policy and Financing

The bill increases the amount available to spend or save for the Department of Health Care Policy and Financing (HCPF) by \$92,000 in FY 2025-26, \$97,000 in FY 2026-27, and increasing amounts in later years as a result of an increase in revenue from the Amendment 35 tax. This revenue is distributed to Medicaid expansion (46 percent of total Amendment 35 revenue), comprehensive primary care (19 percent of total Amendment 35 revenue), and the old age pension health and medical care program (1.5 percent of total Amendment 35 revenue).

Colorado Department of Public Health and Environment

The bill increases the amount available to spend or save for the Colorado Department of Public Health by \$45,000 in FY 2025-26, \$47,000 in FY 2026-27, and increasing amounts in later years as a result of an increase in revenue from the Amendment 35 tax. This revenue is distributed to tobacco education programs (16 percent of total Amendment 35 revenue); prevention, treatment, and early detection programs (16 percent of total Amendment 35 revenue); and immunizations (0.3 percent of total Amendment 35 revenue).

Local Government

Of Amendment 35 tax revenue, 0.9 percent is distributed to municipal and county governments. Because the bill is expected to increase Amendment 35 revenue, distributions to municipal and county governments are expected to increase marginally.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$137,000 in FY 2025-26, \$143,000 in FY 2026-27, and increasing amounts in future years. This represents increased revenue from the original statutory tax that is deposited in the General Fund. Amendment 35 and Proposition EE tax revenue is not subject to TABOR. This estimate assumes the December 2024 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. Because TABOR refunds are paid from the General Fund, increased General Fund revenue will increase the TABOR refund obligation, but result in no net change to the amount of General Fund available to spend or save.

Effective Date

The bill takes effect July 1, 2025.

State Appropriations

For FY 2025-26, the bill requires the following appropriations;

- an increase of \$50,301 from the General Fund to the Department of Revenue; and
- a reduction of \$1,606,000 from the Preschool Programs Cash Fund to the Department of Early Childhood.

State and Local Government Contacts

Early Childhood

Public Health and Environment

Health Care Policy and Financing

Revenue

Personnel

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).