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## Virginia Governor Looks to Excise Taxes.

Last week, Virginia Governor Ralph Northam (D) presented his [two-year budget](#) for fiscal years 2021-2022. The budget includes, among other things, plans to increase excise taxes on gas, tobacco, and other nicotine products.

If the budget passes, gas taxes would increase by 4 cents per gallon each year for the next three years, after which the rate would be indexed to inflation. In a partial offset for this increase, the governor's budget proposes repealing the annual safety inspection requirement (a \$16 annual fee) and lowering the cost of vehicle registration by half (the current cost for most cars is \$40.75). The gas tax in Virginia only covers about [42 percent](#) of the costs of running the state's roads, with the remainder coming from federal funds (23.6 percent) and the state general fund—chiefly from sales tax revenue. Increasing the levy to transform the tax into something closer to a user-pays model can make sense, though ideally, with such a sizable rate increase, there would be more substantial offsets elsewhere (outside of transportation).

This may, moreover, just be the first step. Virginians could expect additional taxes on their fuel if the state joins the Transportation and Climate Initiative (TCI), as Gov. Northam has proposed. The TCI is a regional program aimed at lowering emissions across the region through emissions caps and fees.

An increase of \$0.30 per pack to the state's cigarette excise would double the tax rate to \$0.60 per pack. In addition, the budget includes a new tax on vapor products of \$0.066 per milliliter. The expected revenue is supposed to cover a 20 percent reduction in insurance premiums.

The governor expects to raise \$250 million over the two fiscal years, but given the regressivity of these taxes and their inherent instability, policymakers are well-advised to avoid relying on this revenue to fund broad-based government programs. As a rule of thumb: sin taxes generally do not generate stable revenue and should not be relied on to do so.

While the introduction of a tax on vapor products could make tobacco smokers less inclined to substitute away from cigarettes, the governor does propose a subcommittee to study tax design in relation to harm-reducing tobacco products. Harm reduction is the theory that it is more practical to reduce harm associated with use of certain goods instead of avoiding it completely through bans or punitive level taxation. It is a shift from the kind of thinking that has previously dominated public health cessation efforts. This is a commendable initiative, which could be copied by states looking to curb smoking by urging smokers to substitute to less harmful nicotine products.

The proposed budget reflects a growing trend as policymakers across the country look to excise taxes as long-term solutions to budget woes. While excise taxes can be a part of the revenue picture, they are not a sustainable revenue source due to their narrow base, which is easily affected by changes in consumer behavior or market conditions.

### **Tax Foundation**

by Ulrik Boesen

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