



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado’s Legislature

SB 26-086: REDUCE PREMIUM CIGAR EXCISE TAX RATE

Prime Sponsors:
Sen. Sullivan

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Published for: Senate Finance
Drafting number: LLS 26-0702

Version: Initial Fiscal Note
Date: February 19, 2026

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 2026-27.

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 2026-27, the bill requires an appropriation of \$53,912 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	-\$1.3 million	-\$1.7 million
State Expenditures	-\$1.5 million	-\$2.0 million
Transferred Funds	-\$1.5 million	-\$2.0 million
Change in TABOR Refunds	\$126,298	\$124,858
Change in State FTE	0.0 FTE	0.0 FTE

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

**Table 1A
State Revenue**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund – Proposition EE Tax Revenue	-\$1.5 million	-\$2.0 million
General Fund – Statutory Tax Revenue	\$126,298	\$124,858
Cash Funds – Amendment 35 Tax Revenue	\$128,351	\$126,888
Total Revenue	-\$1.3 million	-\$1.7 million

**Table 1B
State Transfers**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$1.5 million	\$2.0 million
Preschool Programs Cash Fund	-\$1.5 million	-\$2.0 million
Net Transfer	\$0	\$0

**Table 1C
State Expenditures**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$53,912	\$8,702
Preschool Programs Cash Fund	-\$1.5 million	-\$2.0 million
Federal Funds	\$0	\$0
Centrally Appropriated	\$0	\$0
Total Expenditures	-\$1.5 million	-\$2.0 million

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

Beginning in FY 2026-27, the bill eliminates the portion of the excise tax on premium cigars that is attributable to Proposition EE. 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 percentage point increase in the statutory tax established by Proposition EE (increasing to 22 percentage points 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 7.7 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 7.7 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 2026-27, \$1.7 million in FY 2027-28, 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 \$1.5 million in FY 2026-27 and \$2.0 million in FY 2027-28, the same amounts as in the Proposition EE revenue impact identified above.

State Expenditures

In total, the bill decreases state expenditures by \$1.5 million in FY 2026-27, \$2.0 million in FY 2027-28, and increasing amounts in future years. This includes increases in General Fund expenditures in the Department of Revenue of \$53,912 in FY 2026-27 and \$8,702 in FY 2027-28 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.

DOR GenTax Costs

This bill requires one-time expenditures of \$45,134 in FY 2026-27 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$34,187, representing 140 hours of contract programming at a rate of \$244.19 per hour. Costs for system testing include \$7,298 for 178 hours of innovation, strategy, and delivery programming support and \$3,649 for 89 hours of user acceptance testing, both at a rate of \$41 per hour.

Research and Analysis

Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. The Office of Research and Analysis within DOR will expend \$8,778 in FY 2026-27 and \$8,702 in FY 2027-28 and ongoing, representing about 230 at a rate of \$38 per hour.

Department of Early Childhood

Based on the reduction in transfers to the Preschool Programs Cash Fund, the bill is estimated to reduce the amount available to spend or save from the Preschool Programs Cash Fund by \$1.5 million in FY 2026-27, \$2.0 million in FY 2027-28, 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 \$85,000 in FY 2026-27 and FY 2027-28, 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 \$42,000 in FY 2026-27, \$41,000 in FY 2027-28, 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)

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$126,000 in FY 2026-27, \$125,000 in FY 2027-28, 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. The bill does not change current expectations that the state will be below its revenue limit in the current FY 2025-26. This estimate assumes the December 2025 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2027-28. 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 in FY 2026-27, FY 2027-28, and any future years when the state is over its revenue limit.

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.

Effective Date

The bill takes effect July 1, 2026.

State Appropriations

For FY 2026-27, the bill requires a General Fund appropriation of \$53,912 to the Department of Revenue.

State and Local Government Contacts

Early Childhood

Public Health and Environment

Health Care Policy and Financing

Revenue

Office of Economic Development

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](#).