

HB 1060

Department of Fiscal Services Maryland General Assembly

FISCAL NOTE

House Bill 1060 (Delegate Fulton)
Economic Matters

Trade Regulation - Cigarette Sales Below Cost Act

This bill includes the State cigarette tax in the “basic cost of cigarettes” for purposes of the Cigarette Sales Below Cost Act.

Fiscal Summary

State Effect: General fund revenues could increase by \$272,600 in FY 1997. Expenditures would not be affected. Future year estimates reflect a declining trend of cigarette consumption.

| (in dollars) | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenues | \$272,600 | \$352,500 | \$341,900 | \$331,700 | \$321,700 |
| GF Expenditures | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$272,600 | \$352,500 | \$341,900 | \$331,700 | \$321,700 |

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Fiscal Analysis

State Revenues: The Maryland Cigarette Sales Below Cost Act establishes the minimum price that can be charged for a pack of cigarettes. The minimum is based on the list price that a cigarette wholesaler pays to a manufacturer for a carton of cigarettes (10 packs). Under current law the “basic cost of cigarettes” does not include the State cigarette tax for purposes of calculating the wholesalers markup when selling to retailers. Under this bill, the tax would be included in the cost, thereby allowing wholesalers to charge retailers more for a carton of cigarettes and eventually increasing the retail cost of cigarettes.

The average carton list price for wholesalers in Maryland is \$13.15, and the average retail price for a pack of cigarettes is \$1.83. As **Exhibit 1** demonstrates, this bill would lead to a 2 cent average increase in the price of a pack of cigarettes. While an increase this small is not expected to affect cigarette consumption, there would be a resulting increase of approximately \$272,600 in sales tax revenues in fiscal 1997, which reflects the October 1, 1996 effective date of the bill. The annualized amount of the increase for fiscal 1997 would be \$363,400.

Exhibit 1
Effect of HB 1060 on Cigarette Prices

| <u>Current Law</u> | <u>HB 1060</u> |
|------------------------|----------------|
| Carton List Price | \$13.15 |
| Wholesaler's Discount | <u>0.43</u> |
| Net Cost to Wholesaler | 12.72 |
| 5% Markup | <u>0.64</u> |
| Net Cost W/Markup | 13.36 |
| State Cigarette Tax | <u>3.60</u> |
| Cost to Retailers | 16.96 |
| Retailer Markup (8%) | <u>1.36</u> |
| Retail Cost/Carton | 18.32 |
| Price Per Pack | \$ 1.83 |
| Carton List Price | \$13.15 |
| State Cigarette Tax | <u>3.60</u> |
| Subtotal | 16.75 |
| Wholesaler's Discount | <u>0.43</u> |
| Net Cost | 16.32 |
| 5% Markup | <u>0.82</u> |
| Cost to Retailers | 17.14 |
| Retailer Markup (8%) | <u>1.37</u> |
| Retail Cost/Carton | 18.51 |
| Price Per Pack | \$ 1.85 |

Information Source(s): Office of the Comptroller (Alcohol and Tobacco Tax Unit), Department of Fiscal Services

Fiscal Note History: First Reader - March 11, 1996

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