

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

Senate Bill 390 (Senator Trotter, et al.)  
Budget and Taxation

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State Tobacco Tax

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This bill increases the excise tax on a pack of cigarettes from 36 to 61 cents. All unsold cigarettes in the State at the time of the tax increase are subject to the additional 25 cents tax. The bill also reduces the wholesaler discount from 1.36% to 0.81%.

The bill is effective July 1, 1996.

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Fiscal Summary

**State Effect:** General fund revenues would increase by \$85.7 million in FY 1997; general fund expenditures would increase by \$4,200 in FY 1997 only. Future year estimates reflect a declining consumption of cigarettes.

(in thousands)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$85,656	\$74,965	\$72,770	\$70,641	\$68,576
GF Expenditures	4	0	0	0	0
Net Effect	\$85,652	\$74,965	\$72,770	\$70,641	\$68,576

Note: ( ) - decrease; GF - general funds

**Local Effect:** None.

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Fiscal Analysis

**State Revenues:** As a result of this bill, excise tax revenues could increase by \$83.8 million in fiscal 1997 (including floor tax). Sales tax revenues could increase by \$1.9 million. The total revenue increase would be \$85.7 million in fiscal 1997. **Exhibit 1** below reflects the amount and sources of the additional revenues for fiscal 1997. Out-year estimates reflect a 3% declining trend in consumption.

**FY 1997 Revenue Impact of SB 390**

<u>(in millions)</u>	<u>Stamps Sold</u>	<u>Excise Tax</u>	<u>Sales Tax</u>	<u>Floor Tax</u>	<u>Total Revenue</u>
Current Law	\$363.4	\$129.0	\$32.9	\$0.0	\$161.9
Senate Bill 390	<u>\$337.8</u>	<u>\$204.4</u>	<u>\$34.8</u>	<u>\$8.4</u>	<u>\$247.6</u>
Difference	(\$25.6)	\$75.4	\$1.9	\$8.4	\$85.7

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*Current Law*

Because cigarette consumption is declining by an estimated 3% per year, sales in fiscal 1997 are expected to total 363.4 million packs (down from 374.6 in fiscal 1996). Under current law, excise tax revenues at 36 cents per pack, less the 1.36% vendor discount, would total \$129 million in fiscal 1997. Sales tax revenue from cigarettes in fiscal 1997, net the sales tax vendor credit, is estimated to be \$32.9 million. Total revenue from the sale of cigarettes is estimated to be \$161.9 million.

*Senate Bill 390*

The estimated fiscal 1997 sales with a 25 cent tax increase are 337.8 million packs. This reflects a 6.8% decline stemming from the 25 cent increase (.40 elasticity factor) and a 3% decline independent of the increase (a total 9.8% decline from fiscal 1996 estimated sales of 374.6 million packs). Excise tax revenue, at 61 cents per pack, would total \$204.4 million (net the .81% wholesaler discount). The estimated sales tax revenue, net of the vendor credit, would be \$34.8 million. The floor tax levied on all cigarettes in inventory (25 cents) is estimated to result in \$8.4 million in revenue in fiscal 1997 only. The total revenue from the sale of cigarettes under this bill would be \$247.6 million in fiscal 1997.

**State Expenditures:** The Office of the Comptroller would incur expenses of approximately \$4,200 in supplies and postage to inform vendors of the tax change and administer the floor tax.

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

**Fiscal Note History:** First Reader - March 1, 1996

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