

Department of Fiscal Services
 Maryland General Assembly

FISCAL NOTE

House Bill 961 (Delegate Hixson, et al.)
 Ways and Means

Taxation of Smokeless Tobacco Products - Tobacco Awareness Fund

This bill imposes tax of 20% on the price wholesalers pay to manufacturers for smokeless tobacco products and creates the Tobacco Awareness Fund as a special, non-lapsing fund to be administered by the Department of Health and Mental Hygiene (DHMH). After administrative costs are deducted by the Comptroller for the collection of the tax, revenues will be credited to the Tobacco Awareness Fund. The Secretary of DHMH may deduct the amount necessary to administer the fund.

Twenty-five percent of the fund remaining after the deduction for administrative expenses is to be deposited into a Tobacco Crop Conversion Account within the Department of Agriculture. That account is to be used only for funding the development and implementation of a tobacco crop conversion program. The remainder of the Tobacco Awareness Fund revenues will be used to air radio and television messages designed to reduce the use of smokeless tobacco products.

Fiscal Summary

State Effect: Special fund revenues and expenditures could increase by \$1.1 million in FY 1997. Future year estimates reflect moderate increases in the demand for smokeless tobacco products.

(in thousands)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
SF Revenues	\$1,089	\$1,384	\$1,425	\$1,468	\$1,512
SF Expenditures	1,089	1,384	1,425	1,468	1,512
Net Effect	\$0	\$0	\$0	\$0	\$0

Note: () - decrease; SF - special funds

Local Effect: None.

Fiscal Analysis

State Revenues: Approximately 8.8 million of smokeless tobacco products were sold in Maryland by manufacturers in fiscal 1994. Assuming a 3% annual growth rate, fiscal 1996 sales are expected to total 9.3 million. In fiscal 1997 manufacturers' sales are expected to decline by 12% due to the tax.

Therefore, total manufacturers' sales are estimated to be 8.2 million in fiscal 1997, 6.7 million of which is taxable under this bill. Fiscal 1997 tax revenue would be approximately \$1.0 million, which reflects the October 1, 1996 effective date. In the out-years, consumption and therefore revenues are assumed to grow 3% per year.

Retailers are required to pay the tax on smokeless tobacco products in their possession for which the tax has not been paid. It is estimated that this will apply to approximately \$409,600 of smokeless tobacco, yielding \$81,900 in fiscal 1997 tax revenue.

State Expenditures: Administrative and program expenditures will be deducted from the revenues of the smokeless tobacco tax, which are special fund revenues. General fund expenditures will therefore remain unchanged.

Administrative expenditures could increase by an estimated \$74,695 in fiscal 1997 due to the costs associated with hiring one Revenue Examiner and one Fiscal Clerk for the Alcohol and Tobacco Tax Division of the Office of the Comptroller, and one Community Health Educator for the Department of Health and Mental Hygiene. This estimate reflects the October 1, 1996 effective date and includes salaries of \$46,495, fringe benefits, one-time start-up costs, and operating expenses as shown below.

Salaries & Fringe Benefits	\$65,799
Equipment & Operating Expenses	<u>8,896</u>

FY 1996 Administrative Expenditures \$74,695

Future year administrative expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

In fiscal 1997 approximately \$253,700 will be deposited into the Crop Conversion Account and used by the Department of Agriculture to pay the costs of promoting alternative crops to tobacco. The remaining \$761,200 in the fund would be used to pay for the development of radio and television messages and to purchase advertising time. These estimates reflect the October 1, 1996 effective date.

Information Source(s): Office of the Comptroller (Alcohol and Tobacco Tax Division); Smokeless Tobacco Council, Inc.; Department of Health and Mental Hygiene; Department of Fiscal Services

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