

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 588 (Senator Van Hollen, et al.)

Budget and Taxation

Referred to Ways and Means

Taxation of Smokeless Tobacco Products - Tobacco Awareness Fund

This amended bill imposes a tax of 25% 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). Administrative costs may be deducted by the Comptroller for the collection of the tax.

Ten percent of the revenue from this tax 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. Half of the remainder of the revenue will be used to air radio and television messages designed to reduce the use of smokeless tobacco products. Funds from these accounts may not be used unless they are appropriated in the annual budget bill. The rest of the revenue from the tax on smokeless tobacco shall be credited to the general fund.

Fiscal Summary

State Effect: General fund revenues could increase \$558,600; special fund revenues could increase by \$757,400 in FY 1997. Special fund expenditures could increase about \$757,400 in FY 1997. Future year estimates reflect moderate increases in the demand for smokeless tobacco products.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$558,600	\$710,000	\$730,900	\$752,700	\$774,800
SF Revenues	757,400	961,000	990,100	1,020,300	1,051,200
SF Expenditures	757,400	961,000	990,100	1,020,300	1,051,200
Net Effect	\$558,600	\$710,000	\$730,900	\$752,700	\$774,800

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 estimated to decline by 15% due to the tax.

Therefore, total manufacturers' sales are estimated to be \$7.9 million in fiscal 1997, \$6.5 million of which is taxable under this bill. Fiscal 1997 tax revenue would be approximately \$1.2 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 \$395,700 of smokeless tobacco, yielding \$98,900 in fiscal 1997 tax revenue.

State Expenditures: 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 (DHMH). 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 1997 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. The Comptroller's expenditures will be deducted from the revenue prior to any distributions; the expenditures for DHMH will be deducted from the Tobacco Awareness Fund.

In fiscal 1997 approximately \$124,100 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. \$558,600 could be used to pay for the development of radio and television messages and to purchase advertising time. The remaining \$558,600 would be credited to the general fund. 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

Fiscal Note History: First Reader - February 23, 1996

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