SB 710

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 710 (Senator Van Hollen, *et al.*)
Budget and Taxation

Taxation of Smokeless Tobacco Products - Tobacco Awareness Fund

This 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. Administrative costs may be deducted by the Comptroller for the collection of the tax.

Ten percent of revenues from this tax are to be deposited into a Tobacco Crop Conversion Account within the Department of Agriculture, to be used for funding the development and implementation of a tobacco crop conversion program. Half of the remaining revenues will be used primarily for 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. Any remaining revenues from the tax on smokeless tobacco will be credited to the general fund.

Fiscal Summary

State Effect: General fund revenues would increase by $588,700 and general fund expenditures would increase by $51,200 in FY 1998. Special fund revenues and expenditures would increase by $796,800 in FY 1998. Future year estimates reflect full year tax collections, inflation, and salary increments.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$588,700	$779,400	$763,000	$748,500	$734,000

SF Revenues	796,800	1,067,600	1,066,500	1,065,100	1,063,800
GF Expenditures	51,200	59,000	61,000	63,400	65,800
SF Expenditures	796,800	1,067,550	1,066,500	1,065,100	1,063,800
Net Effect	$537,500	$720,400	$702,000	$685,100	$668,200

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

Local Effect: None.

Small Business Effect: Meaningful effect on small businesses as discussed below.

Fiscal Analysis

State Revenues: Approximately $9.6 million of smokeless tobacco products were sold in Maryland by manufacturers in fiscal 1995. Assuming a 3% annual growth rate, fiscal 1997 sales are expected to total $10.2 million. In fiscal 1998 aggregate sales are estimated to decline by 15% due to the tax.

Total manufacturers' sales are estimated to be $8.7 million in fiscal 1998. Assuming 18% of sales are out-of-state or to military reservations and a 10% wholesaler markup, $7.8 million of these sales are taxable under this bill. Fiscal 1998 tax revenues would be approximately $1.5 million, reflecting the October 1, 1997 effective date. Consumption, and therefore revenues, is assumed to remain constant in future years at about $2.0 million annually. Sales tax revenues are estimated to decrease by $63,200 in fiscal 1998 and $94,100 in fiscal 1999.

In fiscal 1998 approximately $144,900 will be deposited into the Crop Conversion Account and used by the Department of Agriculture to pay the costs of promoting alternative crops. $534,200 could be used to pay for the development of radio and television messages and to purchase advertising time. The remaining $588,700 would be credited to the general fund. These estimates reflect the October 1, 1997 effective date.

State Expenditures: Administrative expenditures could increase by an estimated $51,200 in fiscal 1998 due to the costs associated with hiring one Revenue Examiner and one Fiscal Clerk for the Comptroller. This estimate reflects the October 1, 1997 effective date and includes salaries, fringe benefits, one-time start-up costs, and operating expenses as shown below.

Salaries & Fringe Benefits	$43,100
Equipment & Operating Expenses	8,100

FY 1998 Administrative Expenditures $51,200

Future year administrative expenditures reflect full salaries with 3.5% annual increases and 3% employee turnover as well as 2% annual increases in ongoing operating expenses. The Comptroller's expenditures will be deducted from the revenues prior to any distributions. DHMH advises that it would require one Community Health Educator, one Administrative Officer, and one Office Secretary, at an annual cost of $104,000 plus start-up costs of $13,740.

The Department of Fiscal Services advises that it is assumed that the Department of Health and Mental Hygiene could begin administration of this program using existing resources. Depending upon the specific cancer prevention media advertising program that is developed by the department, the additional staff may be needed in future years.

Small Business Effect: This bill could significantly affect small businesses. The majority of tobacco producers, wholesalers, and retailers in Maryland are small businesses. The new 25% tax on smokeless tobacco products proposed in this bill would reduce the sales of these products. The loss in revenues from reduced sales, while partially offset by increased profits on these products, would decrease the profits that businesses realize from smokeless tobacco product sales.

Information Sources: Comptroller of the Treasury (Alcohol and Tobacco Tax Unit), Department of Health and Mental Hygiene, Department of Fiscal Services

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Analysis by: Ryan Bishop
Reviewed by: David F. Roose

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710