HB 271

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 271 (Delegate Morhaim*, et al.*)
Environmental Matters

Tobacco Products - Sale by Vending Machines

This bill prohibits the sale of tobacco products from vending machines. Persons who violate this provision are guilty of a misdemeanor and are subject to a fine of $500. Current provisions of law pertaining to the sale of cigarettes through vending machines are repealed.

Fiscal Summary

State Effect: Indeterminate effect on general fund revenues in FY 1998 as discussed below. Special fund revenues could decrease by $17,650 in FY 1998. Expenditures would not be affected.

Local Effect: Indeterminate decrease in revenues as discussed below. Expenditures would not be affected.

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

Fiscal Analysis

State Revenues: This bill would result in an indeterminate loss in general fund revenues due to decreased cigarette sales. It is estimated that vending machine sales represent about 2% of total cigarette sales, which is expected to result in $2.6 million in excise tax revenues and $700,000 in sales tax revenues in fiscal 1998. If vending machines are prohibited, some but not all sales would be transferred from vending machines to over-the-counter purchases. The loss in revenues depends upon the decline in total purchases resulting from the vending machine prohibition, which cannot be reliably estimated at this time.

For each 1% decline in total sales as a result of this bill, excise tax revenues would decline by about $940,000 and sales tax revenues would decline by about $260,000. These estimates are adjusted to reflect the October 1, 1997 effective date of this bill. On an annual basis, the revenue losses would be $1.3 million and $340,000, respectively, for each 1% decrease in sales. These losses would decrease by approximately 3% per year.

Special fund licensing revenues, which are used for enforcement of the Cigarette Sales Below Cost Act, could decline. The Comptroller issued 20 cigarette vending machine licenses ($500 per license) which yielded about $10,000 in special fund revenues in fiscal 1996. One wholesale license ($750 per license) was issued to a business which only operates vending machines. A $30 renewal fee is also assessed for these licenses. Special funds could therefore decline by $11,380 on an annual basis. These licenses are effective May 1 of each year. The Comptroller anticipates that refunds would be issued in fiscal 1998 for 7/12 of the license fee, since the licenses would only be effective for five months (May 1 to October 1). The fiscal 1998 loss would therefore be $17,650 (one year and seven months of license and renewal fees).

A $30 cigarette retail license is also charged for the retail sale of cigarettes, including sales conducted through vending machines. Any retailers who obtain the license only to sell cigarettes through vending machines would no longer need this retail license; the specific number of affected retailers and amount of lost revenues cannot be reliably estimated at this time.

General fund revenues could increase under the bill's monetary penalty provision, depending upon the number of convictions and fines imposed.

Local Revenues: Twenty-two counties and Baltimore City receive revenues from the issuance of a $25 cigarette license; Cecil County's license fee is $50. A total of $262,623 was collected from these licensing fees in fiscal 1996. Each county and Baltimore City would lose $25 for each license that is not renewed in its jurisdiction; Cecil County would lose $50 for each license not renewed in its jurisdiction.

Small Business Effect: The prohibition of cigarette sales through vending machines would negatively affect small business vending machine operators through decreased sales. Any vending machine operators violating the provisions of this bill could also be subject to a fine of $500.

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

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