

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 501 (The Speaker, *et al.*)
(Administration)

Ways and Means

State Tobacco Tax

This Administration bill increases the excise tax on a pack of cigarettes from 36 to 72 cents. All unsold cigarettes in the State at the time of the tax increase are subject to the additional 36 cent tax. The bill also reduces the wholesaler discount from 1.36% to 0.68%.

The bill is effective June 1, 1997.

Fiscal Summary

State Effect: General fund revenues would increase by \$3.6 million in FY 1997, reflecting the bill's June 1, 1997 effective date, and by \$99 million in FY 1998; general fund expenditures would increase by \$4,000 in FY 1997. Future year revenues reflect declining cigarette consumption.

(in thousands)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$99,000	\$84,900	\$82,600	\$80,400	\$78,000
GF Expenditures	0	0	0	0	0
Net Effect	\$99,000	\$84,900	\$82,600	\$80,400	\$78,000

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

Local Effect: None.

Small Business Effect: The Department of Fiscal Services did not receive a small business impact statement from the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Fiscal Analysis

State Revenues:

Exhibit 1 FY 1998 Revenue Impact of HB 501

<i>(in millions)</i>	<u>Stamps Sold</u>	<u>Excise Tax</u>	<u>Sales Tax</u>	<u>Floor Tax</u>	<u>Total Revenue</u>
Current Law	354.3	\$125.8	\$34.5	\$0.0	\$160.3
House Bill 501	<u>298.2</u>	<u>\$213.2</u>	<u>\$34.3</u>	<u>\$11.8</u>	<u>\$259.3</u>
Difference	(56.1)	\$87.4	(\$0.2)	\$11.8	\$99.0

Current Law

Because cigarette consumption is declining by an estimated 2.5% per year, sales in fiscal 1998 are expected to total 354.3 million packs (down from 363.4 million in fiscal 1997). Under current law, excise tax revenues at 36 cents per pack, less the 1.36% vendor discount, would total \$125.8 million in fiscal 1998. Sales tax revenues from cigarettes in fiscal 1998, net of the sales tax vendor credit, is estimated to be \$34.5 million. Total tax revenues from the sale of cigarettes under current law is estimated to be \$160.3 million in fiscal 1998.

House Bill 501

The estimated fiscal 1998 sales with a 36 cent tax increase are 298.2 million packs. This reflects a 15.8% decline stemming from the 36 cent increase and a 2.5% decline independent of the increase. Excise tax revenues, at 72 cents per pack, would total \$213.2 million (net of the .68% wholesaler discount). The estimated sales tax revenues, net of the vendor credit, would be \$34.3 million. The 36 cent floor tax levied on all cigarettes in inventory is estimated to bring in \$11.8 million in revenues for fiscal 1998 only. The Department of Fiscal Services advises that a portion of floor tax revenues could be received in fiscal 1997, although revenues from the tax are not required to be remitted to the Comptroller until September 30, 1997.

Fiscal Services also advises that, for the fiscal 1998 budget purposes, the Administration estimates that revenues from the floor tax would be received in fiscal 1997 and that a 36 cent tax increase would generate an estimated \$99 million in additional tax revenues for fiscal 1998. However, revenue estimates provided to Fiscal Services by the Comptroller assume that the floor tax revenues would be received in fiscal 1998 and that a 36 cent tax increase would generate approximately \$87.4 million in fiscal 1998.

The total revenues from the sale of cigarettes under this bill would be \$259.3 million in fiscal 1998.

Since the bill is effective June 1, 1997, one month of increased tax revenues would result for fiscal 1997. This increase in revenues would be approximately \$3.6 million.

State Expenditures: The Office of the Comptroller would incur expenses of approximately \$4,000 in supplies and postage to inform vendors of the tax change and administer the floor tax. These expenditures would be incurred in fiscal 1997. The Governor's proposed fiscal 1998 budget is unaffected; the budget forecast is based on the provisions of this bill.

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

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