

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 292 (Delegates Gordon and Conrov)

Ways and Means

State Tobacco Tax - Developmental Disabilities - Waiting List Equity Fund

This bill increases the cigarette tax by \$.50, from \$.36 to \$.86 beginning in fiscal 2000. The Comptroller of the Treasury is required to distribute 100% of the tax revenues generated from this increase to supplement the Waiting List Equity Fund (WLEF) for services from the Developmental Disabilities Administration (DDA) in the Department of Health and Mental Hygiene.

The bill is effective June 1, 1999.

Fiscal Summary

State Effect: Special fund revenues could increase by \$146.4 million in FY 2000. Indeterminate increase in general and federal funds expenditures.

Local Effect: None.

Small Business Effect: Potential meaningful.

Fiscal Analysis

State Revenues:

The Tobacco Excise Tax

Increasing the tobacco tax by \$.50 to \$.86 will increase special fund revenues by \$128.7 million in fiscal 2000. This estimate reflects the following assumptions:

- a federal excise tax increase of \$.10 in fiscal 2000 and another \$.05 increase in fiscal

2001 under current federal law;

- a manufacturer's price increase of \$.50 in fiscal 1999, \$.20 in fiscal 2000, and another \$.10 in fiscal 2001 for the recent tobacco settlement between the tobacco companies and the states, and the proposed farmers' settlement;
- inflation will increase the price of cigarettes by 3% each year;
- there is a price elasticity of -0.4% for cigarette sales (this means that for every 10% increase in price, there is a 4% reduction in sales);
- an estimated 2.5% decrease in sales as a result of cross-border sales for each \$.50 increase in the tobacco excise tax (reflecting 5% of the smoking population located in border counties purchasing in another state). Currently, there is an incentive for Maryland residents to travel to Delaware, Virginia, Pennsylvania, or West Virginia because of the lower tax rates in these states. Increasing the tobacco tax will further increase this incentive; and
- the estimated base price per pack of cigarettes will be \$2.36 for fiscal 2000, including the \$.50 manufacturer's price increase but excluding the current tobacco excise tax of \$.36.

The Floor Tax

The bill requires that a "floor" tax be applied on any cigarette inventories that are held for resale as of the effective date of any tobacco tax rate increase. This tax must be paid to the Comptroller by September 30 following the date of the increase. Floor tax revenue estimates are based on the assumption that 9% of inventories would be held for resale and subject to the tax. These revenues amount to \$14.7 million in fiscal 2000.

Sales and Use Tax

Maryland imposes a 5% sales tax on the price and tax of cigarettes. Therefore, any excise tax increase will also increase sales and use tax revenues. Sales and use tax revenues are estimated to increase by \$3.0 million in fiscal 2000 and by \$3.3 million in fiscal 2001.

Combining the excise tax, floor tax, and sales and use tax will result in a special fund revenue increase of \$146.3 million in fiscal 2000. Future year estimates reflect changes in consumption. The following table shows the future year special fund revenues due to the \$.50 tobacco tax increase.

Special Fund Revenues from a \$.50 Tobacco Tax Increase

(\$ in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Tobacco Tax Revenues	\$146.3	\$120.5	\$116.4	\$114.0	\$113.2

State Expenditures:

Waiting List Equity Fund

The purpose of the Waiting List Equity Fund is to get individuals off the waiting list for community-based services such as: supported living arrangement services; respite care; individual and family support services; supported employment; and individualized community integration day services for the first year. Currently, the WLEF consists of funds realized when an individual is moved out of institutional care and into community-based services. Under the provisions of this bill, the revenues collected from a \$.50 tobacco tax increase would be used to supplement these funds. The funds distributed to the WLEF from the tobacco tax are supplemental and are not intended to take the place of funding that would otherwise be appropriated to provide services for developmentally disabled individuals.

There will be 3,800 disabled individuals on the waiting list in fiscal 2000 and the average cost per individual to be removed off the list into community-based services was approximately \$21,190 in fiscal 1998. To the extent individuals are moved off this list and into community-based services, the tobacco tax revenues could be expended. The extent of these expenditures cannot be reliably estimated at this time.

However, for illustrative purposes, if all 3,800 disabled individuals are taken off the list and placed into community-based services, it would cost DDA approximately \$80.5 million in fiscal 2000, resulting in an excess of around \$65.8 million in the WLEF. The proposed fiscal 2000 budget includes an increase of \$22.8 million in the Five-Year Waiting List Initiative. That amount includes \$9.4 million in general funds, \$12.9 million in federal funds, and \$0.5 million in local match funds. These funds are intended to take an estimated 980 individuals off the waiting list in fiscal 2000. To the extent that tobacco tax revenues are available to take people off the waiting list, up to \$22.8 million in Waiting List Initiative fund savings could be realized.

Comptroller of the Treasury Expenditures

The Comptroller's office currently employs nine tax agents to enforce anti-smuggling regulations and advises that it will require six additional alcohol and tobacco agents with necessary equipment (vehicles, guns, cell phones, etc.) at a cost of \$339,340 in fiscal 2000 to

help control the anticipated increase in smuggling as result of this bill.

The Department of Legislative Services advises that because there is only limited experience with a tobacco tax increase of this size, the extent to which smuggling will become a problem is unknown. However, if organized or large scale smuggling does become a problem in the future, additional tax agents may be required, perhaps on the scale envisioned by the Comptroller's office. It should be noted that a loss from the additional cross-border sales has been incorporated in the revenue estimates.

Under current law a Maryland resident who brings in more than two packs of cigarettes at one time is considered to be smuggling tobacco products into the State. A non-resident who is traveling through Maryland is considered to be smuggling tobacco products if he/she brings more than one carton of cigarettes into the State.

Small Business Effect: This bill could significantly affect small businesses. The majority of tobacco producers, wholesalers, and retailers in Maryland are small businesses. The \$.50 tobacco tax increase and new tax on other tobacco products as proposed in this bill would reduce the sales of tobacco products. These taxes could decrease the profits that businesses realize from tobacco product sales.

On the other hand, funds accruing to the Waiting List Equity Fund are used to procure community services such as supported employment and group homes for individuals with developmental disabilities. Thus, increases in fund balances could result in increased revenues to small business contractors providing such services and expenditures are held constant.

Information Source(s): Comptroller of the Treasury (Alcohol and Tobacco Tax Division), Department of Legislative Services

Fiscal Note History: First Reader - March 2, 1999
ncs/sf

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