

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 163 (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 Current provisions of law pertaining to the sale of cigarettes through vending machines are repealed.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 2000. Special fund revenues could decrease by \$14,660 in FY 2000. Expenditures would not be affected.

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

Small Business Effect: Meaningful effect on small business.

Fiscal Analysis

State Revenues:

General Fund Revenues

This bill would result in an indeterminate general fund revenue loss due to decreased cigarette sales. It is estimated that vending machine sales currently represent about 1% to 2% of total cigarette sales, which is expected to result in \$1.2 to \$2.4 million in excise tax revenues and \$362,000 to \$724,400 in sales tax revenues in fiscal 2000. If vending machines are prohibited, it is assumed that most, 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 illustrative purposes only, each 1% decline in total sales would decrease excise tax revenues by about \$1.2 million and sales tax revenues by about \$362,000 on an annual basis. These losses would decrease approximately 3% per year.

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

Special Fund Revenues

Special fund licensing revenues, which are used for enforcement of the Cigarette Sales Below Cost Act, could decline. The Comptroller issued 16 State vending machine licenses (\$500 per license) to those businesses which operated 40 or more vending machines, yielding about \$8,000 in special fund revenues in fiscal 1998. One \$750 wholesaler 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 \$9,260 on an annual basis. These licenses are issued May 1 of each year. The Comptroller anticipates that refunds would need to be issued in fiscal 1999 for 7/12 of the license fee, since the licenses would only be effective for five months (May 1 to October 1). The fiscal 2000 loss would therefore be \$14,660 (one year and seven months of license and renewal fees).

A \$30 cigarette retail license is sold to those businesses that do not qualify for the State cigarette vending machine license. This license is issued by the Clerk of the Court. The proceeds are remitted to the State Comptroller. Any retailers who obtain the license only to sell cigarettes through vending machines would no longer need this retail license. In fiscal 1998 the Clerks of the Court remitted to the State Comptroller a total of \$264,000; however, because the number of retailers affected by the bill cannot be determined, the loss in revenue cannot be accurately estimated.

Local Revenues: Twenty-two counties and Baltimore City also issue a license for conducting retail sales, including sales conducted through vending machines. These retail licenses are issued for \$25 per license, except in Cecil County where each license is issued for \$50. Any retailers who obtain the license only to sell cigarettes through vending machines would no longer need this retail license. In fiscal 1998 the counties collected a total of \$255,300 in license fees; however, because the number of retailers affected by the bill cannot be determined, the loss in revenue cannot be accurately estimated.

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 operator violating the provisions of this bill would also be subject to a \$500 fine for each violation.

Information Source(s): Comptroller of the Treasury (Alcohol and Tobacco Tax Unit), Department of Legislative Services, Howard County, Montgomery County, Carroll County

Fiscal Note History: First Reader - March 11, 1999

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