

**Department of Legislative Services**  
 Maryland General Assembly  
 2001 Session

**FISCAL NOTE**  
**Revised**

Senate Bill 327 (Senator Hogan, *et al.*)

Budget and Taxation

Ways and Means

**Tobacco Tax - Purchase of Tax Stamps**

This bill increases the discount rate of the purchase price of tobacco tax stamps offered by the State Comptroller to wholesalers from 0.82% to 1.1%. The bill also repeals provisions of current law that authorize the State Comptroller to exempt specified persons from posting security for the tobacco tax under specified circumstances.

The bill takes effect July 1, 2001.

**Fiscal Summary**

**State Effect:** General fund revenue decrease of approximately \$516,500 in FY 2002. Future years reflect a 2.7% reduction in tobacco tax collections. No effect on expenditures.

| (in dollars) | FY 2002     | FY 2003     | FY 2004     | FY 2005     | FY 2006     |
|--------------|-------------|-------------|-------------|-------------|-------------|
| GF Revenue   | (\$516,500) | (\$506,700) | (\$493,000) | (\$479,700) | (\$466,800) |
| Expenditure  | \$0         | \$0         | \$0         | \$0         | \$0         |
| Net Effect   | (\$516,500) | (\$506,700) | (\$493,000) | (\$479,700) | (\$466,800) |

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** Potential meaningful. Licensed wholesalers of tobacco products would receive a higher discount for the purchase of tobacco stamps.

## Analysis

**Current Law:** The discount rate on the purchase price of tobacco tax stamps offered by the State Comptroller to cigarette wholesalers is 0.82%. The State Comptroller is authorized to exempt specified persons from posting security for the tobacco tax under specified circumstances.

**Background:** Cigarette wholesalers do not file a return for cigarettes purchased. Instead, the tax is paid by the purchase of tax stamps. Cigarette wholesalers purchase tobacco stamps (to pay the tax) in bulk from the Comptroller based on the inventory of cigarettes they expect to have in their warehouses. The stamps are then attached to the packs of cigarettes. The stamp affixed to a pack of cigarettes is a visual verification that the tax has been paid. Because stamps are purchased in large volume, wholesalers are given a discount on the price of the stamp. Chapter 121 of 1999 reduced the licensed cigarette wholesaler discount rate from 1.36% to .82% in addition to increasing the cigarette tax by \$.30 per pack in fiscal 2000. Chapter 121 also imposed a 15% tax on the wholesale price of other tobacco products such as cigars and smokeless tobacco in fiscal 2001.

**State Fiscal Effect:** The following chart illustrates the revenue loss resulting from the proposed change in the tobacco tax stamp discount rate. It is based on the tobacco tax revenue forecast for fiscal 2002 from the December 2000 Report of the Board of Revenue Estimates. The forecast represents receipts from the tobacco tax, net of the discount.

| <b>Fiscal Year<br/>(\$ in millions)</b> | <b>Net<br/>Receipts</b> | <b>Gross<br/>Receipts</b> | <b>Current Law -<br/>.82% rate</b> | <b>SB 327 –<br/>1.1% rate</b> | <b>Change</b> |
|---|-------------------------|---------------------------|------------------------------------|-------------------------------|---------------|
| 2002                                    | \$182.9                 | \$184.5                   | \$1.52                             | \$2.03                        | (\$.517)      |
| 2003                                    | 179.5                   | 180.9                     | 1.48                               | 1.99                          | (.507)        |
| 2004                                    | 174.6                   | 176.1                     | 1.44                               | 1.37                          | (.493)        |
| 2005                                    | 169.9                   | 171.3                     | 1.40                               | 1.88                          | (.480)        |
| 2006                                    | 165.3                   | 166.7                     | 1.37                               | 1.83                          | (.467)        |

Future years assume a 2.7% reduction in cigarette tax revenues associated with a decline in consumption.

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## Additional Information

**Prior Introductions:** This bill was introduced as SB 746 during the 2000 session. It passed second reading in the House.

**Cross File:** HB 698 (Delegate Howard) – Ways and Means.

**Information Source(s):** Comptroller of the Treasury (Bureau of Revenue Estimates),  
Department of Legislative Services

**Fiscal Note History:** First Reader – February 9, 2001  
ncs/cer Revised – Enrolled Bill – May 1, 2001

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