

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 1174 (Delegate Frush)
 Ways and Means

Tobacco Tax - Products Other Than Cigarettes - Tax Rate

This bill increases the tax on tobacco products other than cigarettes (cigars, pipe tobacco, chewing tobacco, and snuff) from 15% to 45% of the wholesale price of these products.

The bill takes effect July 1, 2003 and applies to tobacco products other than cigarettes that are sold by a wholesaler to a retailer in the State on or after July 1, 2003.

Fiscal Summary

State Effect: General fund revenue increase of approximately \$16.2 million annually. No effect on expenditures.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$16.2	\$16.2	\$16.2	\$16.2	\$16.2
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$16.2	\$16.2	\$16.2	\$16.2	\$16.2

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Cigars, pipe tobacco, chewing tobacco, and snuff are taxed at 15% of their wholesale price.

Background: Chapter 121 of 1999 established the tax now imposed on tobacco products other than cigarettes. These products became subject to the tax July 1, 2000. The Board of Revenue Estimates expects \$6.0 million in revenues from this tax in fiscal 2004.

State Fiscal Effect: This bill triples the tax on tobacco products other than cigarettes – from 15% to 45% of the wholesale price. As a result, general fund revenues could increase by approximately \$16.2 million annually beginning in fiscal 2004 as a result of increasing the tax. The estimate is based on the following facts and assumptions:

- wholesale sales of other tobacco products are estimated to total approximately \$40.0 million in fiscal 2004;
- sales will decline by approximately 10% as consumers either stop buying these products or start buying them out of State due to higher retail prices resulting from the tax increase; and
- sales remain constant after fiscal 2004.

Small Business Effect: According to the 1998 Survey of U.S. Business by the U.S. Census Bureau, over 92% of general merchandise stores, food and beverage stores, and gas stations (places where individuals may purchase tobacco products) have fewer than 20 employees.

Businesses that sell products such as cigars, pipe tobacco, and chewing tobacco will likely realize a reduction in sales of these products.

Additional Information

Prior Introductions: None.

Cross File: SB 766 (Senator Ruben) – Rules.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 14, 2003
mam/jr

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510