

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1532 (Delegate McHale, *et al.*)
 Ways and Means

Tobacco Tax - Tobacco Products other than Cigarettes - Revenues for School Textbooks

This bill increases the tax on tobacco products other than cigarettes (cigars, pipe tobacco, chewing tobacco, and snuff) from 15% to 30% of the wholesale price of these products. The increase applies to other tobacco products (OTPs) that are sold by a wholesaler to a retailer in the State on or after July 1, 2004.

The bill also eliminates the 0.82% discount of the purchase price of tax stamps for cigarettes available to licensed wholesalers.

The bill requires that after required administrative and refund distributions, one-half of tobacco tax revenues would be required to be distributed to a special fund dedicated to purchasing textbooks at specified public and nonpublic schools.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund revenue increase of approximately \$1.2 million in FY 2005 as a result of the net effect of eliminating the vendor discount and dedicating half of OTP tax revenues to education expenditures. Special fund revenues and expenditures for education increase by approximately \$6.6 million in FY 2005. Future years reflect 3% increase in OTP consumption and 2% decrease in cigarette consumption.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$1.2	\$1.2	\$1.0	\$1.0	\$1.1
SF Revenue	6.6	6.8	7.0	7.2	7.5
SF Expenditure	6.6	6.8	7.0	7.2	7.5
Net Effect	\$1.2	\$1.2	\$1.0	\$1.0	\$1.1

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

Local Effect: Local revenues for textbook purchases would increase.

Small Business Effect: Meaningful.

Analysis

Bill Summary: Other tobacco tax revenues, after distributions to refunds and administrative expenses, are to be distributed: 50% to a special fund dedicated to purchasing textbooks; and 50% into the general fund. Half of the new special textbook fund would be dedicated to public school purchases and the other half to nonpublic school purchases. Aid to a nonpublic school may not exceed \$60 per eligible nonpublic school; except that nonpublic schools where at least 20% of students are eligible for the free/reduced lunch program may receive a maximum of \$90 per student.

In order to qualify, a nonpublic school must: (1) hold a certificate of approval from or be registered with the State Board of Education; (2) comply with Title VI of the Civil Rights Act of 1964; and (3) charge tuition that is not greater than the State average per pupil expenditures made by local education agencies.

The bill stipulates that none of the aid provided may be used for the furtherance of sectarian religious instruction or in connection with any program for any religious denomination and that textbooks provided to nonpublic schools remain property of the State.

Current Law: The OTP tax is 15%. OTP tax revenues, after distributions to refunds and administrative expenses, are distributed to the general fund. Licensed wholesalers are allowed a 0.82% discount of the purchase price of tax stamps. The stamp and discount apply to cigarettes but not OTPs.

State Fiscal Effect: This bill doubles the OTP tax and dedicates half of the OTP revenue to a new special textbook fund and eliminates the vendor discount available to licensed wholesalers. As a result, general fund revenues would increase by approximately \$1.2 million in fiscal 2005 and special fund expenditures and revenues would increase by approximately \$6.6 million, based on the following information and assumptions:

- increasing the OTP tax would increase revenues by approximately \$5.7 million for a total of \$13.2 million in OTP tax in fiscal 2005;
- wholesale sales of OTPs are estimated to total approximately \$49.0 million in fiscal 2005;

- underlying sales are projected to increase by 3% annually after fiscal 2005; and
- based on the experience of other states as a result of the tax increase, it is estimated that sales will decline by approximately 10% in fiscal 2005 as consumers either stop buying these products or shift to buying them in a manner that is not subject to State taxation.

OTP tax revenues would be split between the general fund and a new textbook special fund. As a result of this new distribution, general fund revenues would decline by approximately \$900,000 annually. Special fund revenues for textbook purchases would increase by \$6.6 million.

Based on the fiscal 2005 estimated cigarette revenues, eliminating the vendor discount would increase general fund revenues by approximately \$2.1 million in fiscal 2005. Future year increases decrease by approximately 2% annually, totaling \$2.0 million in fiscal 2005.

State funding for public schools will increase significantly over the next three years due to the enactment of the Thornton legislation (Chapter 288 of 2002). Under that law, it is estimated that the State will provide \$1.3 billion in new funding for public schools by fiscal 2008. This bill does not alter the current formulas for State education expenditures, resulting in an increase in State expenditures above and beyond what is projected to be spent.

Small Business Effect: Maryland businesses that sell products such as cigars, pipe tobacco, and chewing tobacco will realize a reduction in sales of these products. 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.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 27, 2004
mll/mdr

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