SB 363

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 363 (Senator Ruben, *et al.*)
Budget and Taxation

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, 2004 and applies to other tobacco products (OTP) that are sold by a wholesaler to a retailer in the State on or after July 1, 2004.

Fiscal Summary

State Effect: General fund revenue increase of approximately $10.1 million in FY 2005. Out-years reflect 3% annual increases in OTP sales.

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	$10.1	$10.4	$10.7	$11.1	$11.4
Expenditure	$0	$0	$0	$0	$0
Net Effect	$10.1	$10.4	$10.7	$11.1	$11.4

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. **Exhibit 1** lists the amount of revenue generated in fiscal 2001 through 2003.

Exhibit 1
OTP Tax Collected
Fiscal 2001 through 2003

Fiscal Year	OTP Tax Collected
2001	$5,805,603
2002	6,157,567
2003	6,580,461

According to the Federation of Tax Administrators, all but three States impose some sort of tax on OTPs. Of the states that impose a tax on the wholesale value, four states impose a tax greater than 45% (California, Oregon, Alaska, and Washington). Delaware and West Virginia impose an OTP tax, 15% and 7% of the wholesale value respectively, while Pennsylvania and Virginia do not impose an OTP tax.

Exhibit 2 lists the amount of OTP tax collected in several other states. Washington and Rhode Island recently increased the OTP tax rate. In Rhode Island, an increase of the OTP rate from 20% in fiscal 2001 to 30% in fiscal 2002 increased revenues from approximately $1.2 million to $1.7 million. In Washington, the OTP tax was increased effective January 1, 2002 from approximately 75% to approximately 129%. Fiscal 2002 OTP tax revenues totaled $27.3 million, but decreased to $23.0 million in fiscal 2003.

Exhibit 2
Several State OTP Tax Revenues

State	OTP Tax	Revenue ($ in millions)
Rhode Island	30%	$1.30
Washington	102%*	23.9
Minnesota	35%	8.1

* For half of fiscal 2003 the rate was 75% and the other half it was 129%.

State Revenues: In a 2000 report, the Surgeon General stated that relatively few studies have tried to estimate the price elasticity of other tobacco products and how increasing taxes on these products affects tax revenue collections. Research has indicated that other tobacco product consumption is influenced by the tax rates imposed on cigarettes as well. In addition, OTPs include a wide range of products, and these products appeal to individuals with divergent socio-economic statuses. Individuals with different preferences and income levels will react differently to changes in price so it is difficult to determine the revenue effect from increasing the tax rate on OTPs.

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 $10.1 million annually beginning in fiscal 2005 as a result of increasing the tax. This estimate is based on the following facts and assumptions:

- wholesale sales of other tobacco products are estimated to total approximately $49.0 million in fiscal 2005;
- based on the experience of other states, it is estimated that sales will decline by approximately 20% 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; and
- sales increase by 3% annually after fiscal 2005.

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: SB 766 of 2003, an identical bill, was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - March 1, 2004
ncs/mdr

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