

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 555 (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, 2005 and applies to other tobacco products (OTP) that are sold by a wholesaler to a retailer in the State on or after July 1, 2005.

Fiscal Summary

State Effect: General fund revenues could increase by approximately \$12.3 million in FY 2006. Future year revenues reflect 5% annual increases in OTP sales. No effect on expenditures.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$12.3	\$12.6	\$13.0	\$13.3	\$13.7
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$12.3	\$12.6	\$13.0	\$13.3	\$13.7

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 2004.

Exhibit 1
OTP Tax Collected
Fiscal 2001 through 2004

<u>Fiscal Year</u>	<u>OTP Tax Collected</u>
2001	\$5,805,603
2002	6,157,567
2003	6,580,461
2004	7,335,288

According to the Federation of Tax Administrators, all but two States impose some sort of tax on OTPs.

State Revenues: This bill triples the tax on tobacco products other than cigarettes – from 15% to 45% of the wholesale price – increasing the wholesale price of these products by approximately 26%. As a result, general fund revenues could increase by approximately \$12.3 million in fiscal 2006 as a result of increasing the tax. This estimate is based on the following facts and assumptions.

- The Board of Revenue Estimates projects that wholesale sales of OTPs will total approximately \$57.0 million in fiscal 2006, an increase of 8% of what is estimated for fiscal 2005;
- OTP sales will decrease by approximately 20% as a result of the proposed tax increase due to reduced consumption and nontaxable sales. This estimate is based on a price elasticity of demand for OTPs of 0.6 and that an estimated additional 5% of purchases will be conducted in a manner that is not subject to State taxation. If the demand is more responsive to the change in price, the decrease in stamp sales could be greater.
- Sales increase by 5% annually after fiscal 2006.

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 363 of 2004 and SB 766 of 2003, identical bills, were not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

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