

Department of Legislative Services
Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE

Senate Bill 23 (Senator McFadden)
Budget and Taxation

Little Cigars - Taxation and Packaging

This bill subjects “little cigars” to the State cigarette tax instead of the other tobacco products tax. The bill prohibits the sale of little cigars in packages of less than five. The Comptroller is required to adopt regulations to implement the bill.

The bill takes effect January 1, 2008.

Fiscal Summary

State Effect: Potential net increase in general fund revenues beginning in FY 2008. Based on limited data and estimates in other states, general fund revenues could increase by up to \$0.5 million in FY 2008 and up to \$1 million annually beginning in FY 2009. Expenditures would not be affected.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Cigars, pipe tobacco, chewing tobacco, and snuff (other tobacco products) are taxed at 15% of their wholesale price. Cigarettes are taxed at a rate of \$1.00 per pack. The discount rate on the purchase price of tobacco tax stamps offered by the State Comptroller to cigarette wholesalers is 0.82%.

Bill Summary: The bill defines little cigars as any smoking roll that • is made of tobacco or tobacco mixed with another ingredient; • is wrapped in a leaf of tobacco or in any other material containing tobacco; and • weighs less than three pounds per thousand.

Background: Cigarette tax revenues totaled \$269.1 million in fiscal 2007; the other tobacco products tax generated \$9.1 million. Cigars (of all types) comprised approximately 55% of all sales subject to the other tobacco products tax in fiscal 2006.

State Revenues: The bill would alter the taxation of little cigars beginning on January 1, 2008. It is estimated that due to the low price of many little cigars, subjecting these products to the cigarette tax, which is quantity based, instead of the other tobacco products tax, which is an ad valorem or value-based tax, would result in a net general fund revenue increase beginning in fiscal 2008. Based on limited Maryland data and estimates in other states proposing to alter the regulation of these products, Legislative Services estimates that the net increase would likely be less than \$500,000 in fiscal 2008 and \$1 million annually beginning in fiscal 2009.

Additional Information

Prior Introductions: None.

Cross File: HB 20 (Delegate Tarrant) – Ways and Means.

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

Fiscal Note History: First Reader - November 2, 2007
ncs/hlb

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