

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 363 (Senator Muse)
Budget and Taxation

Sales and Use Tax - Surcharge - Tobacco Paraphernalia

This bill imposes a \$20 surcharge on the purchase of specified items of tobacco paraphernalia.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) revenues could increase beginning in FY 2009. The amount of the increase depends on the number of items of tobacco paraphernalia sold each year. No effect on expenditures.

Local Effect: None.

Small Business Effect: Potential meaningful. Small retail establishments that sell tobacco products and tobacco paraphernalia could be adversely affected if the surcharge leads to a reduction in sales of these products.

Analysis

Bill Summary: Tobacco paraphernalia includes a cigarette rolling paper; a metal, wooden, acrylic, glass, stone, plastic, or ceramic pipe with or without screen, permanent screen, or punctured metal bowl; a water pipe; a carburetion tube or device; a smoking or carburetion mask; an object known as a roach clip used to hold burning material; a chamber pipe; a carburetor pipe; an electric pipe; an air driven pipe; a chillum; a bong; and an ice pipe or chiller.

Current Law: With enactment of Chapter 6 (HB 5) of the 2007 special session, tobacco products and tobacco paraphernalia are taxable at the rate of 6% (effective January 3, 2008). Chapter 6 also increased the State tobacco tax from \$1 to \$2 per pack of cigarettes beginning January 1, 2008;

Background: The sales and use tax is the State's second largest source of general fund revenue accounting for \$3.7 billion in fiscal 2008 and \$4.3 billion in fiscal 2009, according to the most recent revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states.

Exhibit 1
Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	6%
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%, includes 1% for local jurisdictions
West Virginia	6%

Sales and use tax collections from the Comptroller's cigarette and tobacco dealers category were \$300,000 in fiscal 2007.

State Fiscal Effect: General fund and TTF revenues would increase beginning in fiscal 2009 as a result of the surcharge imposed by the bill. However the actual increase cannot be reliably estimated due to the lack of available data regarding the specific number of items of tobacco paraphernalia that are sold in any given year.

In addition to increasing the sales and use tax rate from 5% to 6%, Chapter 6 of the 2007 special session also altered the distribution of sales and use tax revenues by requiring that 6.5% of revenues, after specified distributions, be diverted to the TTF beginning July 1, 2008. As a result, general fund revenues and TTF revenues would increase by \$18.70 and \$1.30, respectively, for each item sold.

In order to provide a potential order of magnitude but *for illustrative purposes only*, if 50,000 items of tobacco paraphernalia are sold in a year, general fund revenues would increase by \$935,000 and TTF revenues would increase by \$65,000.

Additional Information

Prior Introductions: This bill was introduced as SB 30 in the 2007 special session. The Senate Budget and Taxation Committee took no action on the bill.

Cross File: None.

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

Fiscal Note History: First Reader - February 6, 2008
mcp/hlb

Analysis by: Michael Sanelli

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