Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 609 (Delegate Tarrant, *et al.*)
Economic Matters

Cigars - Sales of Less Than Five Per Package - Prohibited

This bill prohibits a retailer from purchasing from a manufacturer or wholesaler or selling or otherwise giving away to any person a package of less than five cigars. The bill also prohibits a wholesaler from selling or otherwise giving away to any person a package of less than five cigars.

This prohibition does not apply to a retailer whose primary business is the retail sale of tobacco products other than cigarettes, with the sale of other products being incidental to that business. Nor does it apply to any cigar with a wholesale price of less than $2. The Comptroller's Office has to adopt regulations to enforce the provisions of the bill.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Potential minimal decrease in the other tobacco products (OTP) tax and sales tax assessed on cigars. It is assumed that any enforcement could be handled within existing budgeted resources at the Comptroller's Office.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: There is no prohibition against the sale of cigars in packages of less than five cigars. OTPs, including cigars, are taxed at a rate equal to 15% of the wholesale price. In addition, the State sales tax of 6% is imposed on the final retail price of OTPs.

Background: The OTP tax totaled $9.1 million in fiscal 2007. Of the monthly wholesaler reports filed with the Comptroller's Office, approximately 56% of taxes were generated from cigars, 31% from snuff, 10% from chewing tobacco, and less than 3% from pipe and other tobacco.

State Fiscal Effect: The bill prohibits the sale of a cigar with a wholesale price of more than $2 in packages of less than five by any store that is not considered a tobacco shop under the bill. Although the restriction might lead to a decrease in sales, it is estimated that any reduction would be minor due to the limited impact bundling would have on any potential sale and the limited scope of the bill. Most cigars with a wholesale price in excess of $2 are likely sold at stores not covered by the prohibition. Therefore, general fund revenues could decrease minimally beginning in fiscal 2009 due to a decrease in the OTP and sales taxes assessed on cigars. Likewise, Transportation Trust Fund revenues could decrease minimally due to decreased sales tax revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

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