

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1291 (Delegate D. Barnes)
 Rules and Executive Nominations

Tobacco Tax - Premium Cigars - Exemption

This bill exempts premium cigars from the other tobacco product (OTP) tax. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by \$2.8 million in FY 2020 due to a reduction in OTP tax and sales tax revenue. Future year estimates reflect projected increases in premium cigar sales. Expenditures are not affected.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$2.8)	(\$2.9)	(\$3.0)	(\$3.1)	(\$3.2)
Expenditure	0	0	0	0	0
Net Effect	(\$2.8)	(\$2.9)	(\$3.0)	(\$3.1)	(\$3.2)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law/Background: Generally, the tax rate for OTP is 30% of the wholesale price, which means the price for which a wholesaler buys OTP, exclusive of any discount, trade allowance, rebate, or other reduction. The tobacco tax rate for cigars is 70% of the wholesale price of the cigars. The tobacco tax rate for premium cigars is 15% of the wholesale price of the premium cigars. In fiscal 2017, a total of \$2.3 million in OTP tax

was collected from the sale of premium cigars. OTP tax revenues accrue to the general fund. In addition, the State sales tax rate of 6% is imposed on the final retail price of OTP.

State Revenues: The bill exempts premium cigars from the OTP tax. As a result, general fund revenues decrease by \$2.8 million in fiscal 2020, which reflects a \$2.6 million decrease in OTP tax revenue and \$157,000 decrease in sales tax revenue. Future revenue losses increase by about 4% annually and total \$3.2 million in fiscal 2024.

Small Business Impact: Premium cigar retailers and wholesalers who are small businesses may be positively impacted from the proposed tax rate reduction. The impact depends on the extent to which the tax decrease increases sales in these products and the extent to which any savings from the tax decrease is passed along to customers.

Additional Information

Prior Introductions: None.

Cross File: SB 826 (Senator Serafini) - Budget and Taxation.

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

Fiscal Note History: First Reader - March 4, 2019
md/hlb

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