

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1259 (Delegate Ross, *et al.*)
 Ways and Means

Tobacco Tax - Tax Stamps

This bill requires a cigarette wholesaler to affix cigarette tax stamps that are capable of being read by a scanner and encrypted with the following information: • the name and address of the distributor affixing the stamp; • the date the stamp was affixed; • the denominated value of the stamp; and • any other information required by the Comptroller.

The bill takes effect October 1, 2010.

Fiscal Summary

State Effect: General fund revenues would increase by \$7.1 million in FY 2011 due to increased cigarette tax compliance. Future years reflect annualization. General fund expenditures could increase by \$5.5 million in FY 2011 due to encryption equipment and/or purchases at the Comptroller’s Office. Future years reflect annualization and constant level of expenses.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$0	\$0	\$7.1	\$9.4	\$9.3
GF Expenditure	0	0	5.5	3.1	3.1
Net Effect	\$0	\$0	\$1.6	\$6.3	\$6.2

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Except as provided, within 72 hours after receiving cigarettes in the State and before selling or attempting to sell the cigarettes, a licensed cigarette wholesaler who first possesses the cigarettes must affix, to the smallest cigarette package, tax stamps • in a total amount that at least equals the tobacco tax due on the number of cigarettes in the package; and • in the manner that the Comptroller requires, including placing the tax stamps on the cigarette package so that the stamps are visible to a buyer. A licensed cigarette wholesaler is not required to affix tax stamps to: • sample cigarettes if the cigarette package is marked as required under current law; or • cigarettes that are segregated or marked to indicate that the cigarettes were received in the immediately preceding 72 hours or are being held for sale or use that is exempt under this title.

Background: Encryption technology can improve cigarette tax stamps by making it more difficult to produce counterfeit stamps, allowing for enhanced tracking, and providing for instant verification capabilities. California currently requires encrypted cigarette tax stamps as part of a multi-pronged approach to combat cigarette tax evasion – licensing cigarette-related businesses, increased enforcement activities including personally visiting storefronts, and implementing encryption technology. The combination of these activities has led to a decrease in the estimated amount of cigarette tax evasion. However, this does not mean that the stamps are impossible to counterfeit, only more difficult than ordinary stamps. News reports indicate that counterfeit California tax stamps were discovered soon after the introduction of encrypted technology. Several states are currently considering requiring the use of encrypted technology.

State Revenues: General fund revenues could increase by \$7.1 million in fiscal 2011 and by \$9.3 million in fiscal 2013 due to additional cigarette tax compliance. This estimate is based on the estimated revenues from California's program and takes into account geographic and enforcement policy differentials in the two states.

State Expenditures: General fund expenditures would increase beginning in fiscal 2011 due to encryption equipment and/or purchases at the Comptroller's Office. **Exhibit 1** lists the estimated cost, based on whether the equipment is leased or purchased. For purposes of this fiscal note, the average cost for encryption equipment is used.

Exhibit 1
Estimated Encryption Equipment Costs

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Purchase	\$6,823,900	\$2,171,200	\$2,171,200
Lease	4,227,200	3,984,600	3,984,600
Average	\$5,525,550	\$3,077,900	\$3,077,900

Small Business Effect: To the extent that cigarette business licenses who are small businesses are required to purchase any encryption technology, these business could be negatively impacted through additional expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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