
Finance Committee

HB 2191

Brief Description: Revising taxation of other tobacco products.

Sponsors: Representatives Gombosky, Holmquist, McIntire, Alexander, Cooper and Armstrong.

Brief Summary of Bill

- Reduces the tobacco products tax rate from 129.4 percent to 75 percent of wholesale price.
- Caps tax on large cigars at 50 cents per cigar.
- Makes the Liquor Control Board the enforcement authority for the tobacco products tax.
- Adds some enforcement provisions to the tobacco products tax law.

Hearing Date: 3/10/03

Staff: Rick Peterson (786-7150).

Background:

Cigarette and tobacco products taxes are added directly to the price of these goods before the sales tax is applied. The current rate for the cigarette tax is 142.5 cents per pack of 20 cigarettes. The rate for tobacco products is 129.4 percent of the wholesale price. Examples of tobacco products are cigars, pipe tobacco, and chewing tobacco.

In November 2002 the voters approved I-773 which increased the cigarette tax rate from 82.5 cents per pack to 142.5 cents per pack of 20. It also increased the tobacco products tax from 74.9 percent of wholesale price to 129.4 percent of wholesale price. Revenue from the rate increase is deposited in the Health Services Account.

Revenue from the first 23 cents of the cigarette tax goes to the General Fund. The next eight cents are dedicated to Water Quality Improvement Programs through June 30, 2021, and to the General Fund thereafter. The next 101 cents goes to the Health Services Account. The remaining 10.5 cents are dedicated to youth violence prevention and drug enforcement.

The tobacco products tax of 129.4 percent is divided as follows: 48.15 percent goes to the General Fund, 64.5 percent to the Health Services Account, and the remaining 16.75 percent is dedicated to Water Quality Improvement Programs through June 30, 2021, and to the General Fund thereafter. As share of revenue the tax is split about 37 percent to the General Fund, 50 percent to the Health Services Account, and 13 percent to the Water Quality Account.

The tobacco products tax is due from the distributor when the distributor brings tobacco products into the state, manufactures tobacco products in the state, or ships tobacco products to retailers in the state.

The tax is based on the wholesale price. The wholesale price is the price charged by the manufacturer to a distributor.

The Liquor Control Board enforces the cigarette tax. The cigarette tax statutes contain a number of enforcement provisions. Tax stamps must be placed on the smallest package to be sold. It is a gross misdemeanor to possess or transport untaxed cigarettes. Penalties apply if a person is in possession of untaxed tobacco including: seizure of the untaxed cigarettes, and a penalty equal to the greater of \$10 per pack of cigarettes or \$250 plus the cigarette tax and interest. It is a class C felony to be in possession of more than 60,000 untaxed cigarettes. Property that is used in the illegal shipment and distribution of cigarettes may be seized. The property may be retained for official use or sold. Retailers and wholesalers must be licensed.

The Department of Revenue administers and collects the tobacco products tax. The Department of Revenue appoints enforcement officers of the Liquor Control Board as the department's authorized agents to engage in enforcement activities.

Summary of Bill:

The tobacco products tax rate is reduced to 75 percent of wholesale price. The 75 percent rate is divided as follows: 30 percent to the General Fund, 35 percent to the Health Services Account, and 10 percent to the Water Quality Account.

As share of revenue the tobacco products tax is split about 40 percent to the General Fund, 47 percent to the Health Services Account, and 13 percent to the Water Quality Account.

The tax on large cigars is capped at 50 cents per cigar. A large cigar is defined as a roll of tobacco designed for smoking with a tobacco wrapper where 1,000 of these cigars weigh more than three pounds.

The Liquor Control Board is made the enforcement authority for tobacco products tax. Some of the same enforcement provisions in the cigarette tax law are added to the tobacco products tax law. Distributors and retailers of tobacco products must be licensed. Property that is used in the illegal shipment and distribution of tobacco products may be seized. The property may be retained for official use or sold.

Appropriation: None.

Fiscal Note: Requested on March 4, 2003.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.