

BILL: **Sub. S.B. 98**

DATE: **May 13, 1999**

STATUS: **As Enacted – Effective June 8, 1999**

SPONSOR: **Sen. Nein**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Establishes limitations on the affixing of state cigarette tax stamps to cigarette packages when they are intended to be exported to foreign markets**

## State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	Potential gain of up to \$430,000 to Potential decrease of up to \$2.9 million	Potential gain of up to \$430,000 to Potential decrease of up to \$2.9 million	Potential gain of up to \$430,000 to Potential decrease of up to \$2.9 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The affixing of a state cigarette stamp to “gray market” cigarettes is prohibited.
- Cigarette sales may be reduced, resulting in changes in cigarette tax and sales tax revenues.
- Annual revenue impact range of a \$430,000 gain to a \$2.9 million loss is possible.

## Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1999	FY 2000	FUTURE YEARS
<b>Counties, municipalities, and transit authorities</b>			
Revenues	Potential gain of up to \$73,000 to Potential decrease of up to \$35,000	Potential gain of up to \$146,000 to Potential decrease of up to \$70,000	Potential gain of up to \$146,000 to Potential decrease of up to \$70,000
Expenditures	- 0 -	- 0 -	- 0 -
<b>Cuyahoga county (from County Cigarette Tax)</b>			
Revenues	Potential decrease of up to \$9,000	Potential decrease of up to \$18,000	Potential decrease of up to \$18,000
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.



- Cigarette sales may be reduced, resulting in changes in sales tax revenues for counties under the County Permissive Sales Tax, County Additional Sales Tax, and Transit Authority Sales Tax. Additionally, revenues to the Local Government Fund and the Local Government Revenue Assistance Fund may change.
- Cuyahoga county may lose revenues from its county cigarette tax.

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## Detailed Fiscal Analysis

The bill establishes limitations on the affixing of tax stamps to “gray market” cigarettes. “Gray market” cigarettes are produced for sale outside of the United States but they either never leave the country or are diverted back into the United States for domestic sale. The term “gray market” is used because the product is legal and appropriate taxes are paid. Those selling gray market cigarettes gain an advantage not by evading taxes, but because cigarettes intended for export are usually priced below domestic products. However, because the price is lower, the amount of sales tax paid on gray market cigarettes will be lower.

The bill prohibits the affixing of a state cigarette tax stamp to any package that:

- a) bears any label or notice prescribed by the United States to identify cigarettes exempt from federal taxation because the cigarettes are for exportation
- b) is not labeled in conformity with the Federal Cigarette Labeling and Advertising Act
- c) has been altered by someone other than the manufacturer or a person authorized by the manufacturer
- d) has been imported or brought into the United States after January 1, 2000, in violation of the federal law that regulates how cigarettes the were previously exported from the United States may be imported or brought back into the United States

These prohibitions essentially ban the affixing of a state cigarette tax stamp to gray market cigarettes.

The prohibitions should reduce the sales of gray market cigarettes in Ohio. The effect on tax revenues depends on the effect on overall cigarette sales. If consumers increase purchases of legal market cigarettes to the extent that total sales remain the same, then cigarette tax revenues will remain the same and sales tax revenues will increase. If purchases of legal market cigarettes increase, but by a smaller amount than the decrease in sales of gray market cigarettes, then cigarette tax revenues will fall and sales tax revenues may rise or fall depending on the increase in legal market sales. The change in sales will depend on the price differential between the two markets and consumers reactions.

The estimates of changes in revenues are based on revenue forecasts for fiscal years 2000 and 2001 and the results of simulations of the effects of prohibiting the affixing of state cigarette stamps to gray market cigarettes. The best case scenario resulted in a 0.68% increase in sales tax revenues and no change in cigarette tax revenues. The worst case scenario resulted in a 0.33% decrease in sales tax revenues and a 1.00% decrease in cigarette tax revenues.

□ *LBO staff: Allan Lundell, Economist*

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