

TOBACCO TAX STAMP - BACKGROUND MEMORANDUM

Tobacco tax stamps were required by law on cigarette packages from the time of the enactment of the tobacco tax in 1925 until 1991. The tobacco tax stamp requirement was eliminated by enactment of 1991 House Bill No. 1028.

Since 1991, three bills have been introduced in the Legislative Assembly which would have reinstated the requirements for the use of tobacco tax stamps. Each of these bills was ultimately enacted, but the provisions requiring the use of tobacco tax stamps were removed from each bill.

Senate Bill No. 2448 (2001) would have reinstated the requirements for tobacco tax stamps, but the bill was amended into a Legislative Council study request before the Senate vote. The amended study called for examination of compliance issues for tobacco, alcohol, and fuels taxes, all of which are collected at the wholesale level. The fiscal note for the 2001 tobacco tax stamping bill stated that it would cost the general fund an estimated \$791,000 in the 2001-03 biennium from the dealer discount, engraving, and postage. The interim study was conducted by the Taxation Committee. The Tax Department reported a high level of compliance under the tobacco tax laws. In response to concerns about tax-free cigarettes being purchased on Indian reservations and resold at

retail outside the reservations without payment of taxes, the Tax Department conducted over 120 field reviews of businesses located outside Indian reservations in the state and found no evidence of illegal sale of untaxed tobacco products. The 2001-02 interim Taxation Committee made no recommendation on the tobacco, alcohol, and fuels taxes study.

House Bill No. 1522 (2005) would have reinstated the use of tobacco tax stamps, but the tax stamp requirements were amended out of the bill before the vote in the House of Representatives. The fiscal note for the 2005 bill estimated increased expenditures to the state of \$368,000 from the tax stamp requirements.

House Bill No. 1358 (2007) would have reinstated the use of tobacco tax stamps. The bill was ultimately passed, but the tobacco tax stamp requirements were removed before the vote in the House of Representatives. The fiscal note for the 2007 bill stated that tax-stamping requirements would cause an increase in expenditures for the Tax Department totaling an estimated \$1,508,000 for the 2007-09 biennium for expenses, including stamps, insured delivery of stamps, computer system changes, and two full-time equivalent positions.