

STORAGE NAME: h1065.rs
DATE: March 6, 1997

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
REGULATED SERVICES
BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: HB 1065

RELATING TO: Tax on tobacco products; creating a primary source of supply

SPONSOR(S): Representative Andrews

STATUTE(S) AFFECTED: Creates 210.155; amends 210.15, 210.151, 210.16, Florida Statutes

COMPANION BILL(S): SB 334 (identical)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) REGULATED SERVICES
- (2) FINANCE & TAXATION
- (3)
- (4)
- (5)

I. SUMMARY:

The provisions of this bill require domestic cigarette manufacturers to register as the primary source of supply prior to offering their cigarettes for sale in the state. In the case of cigarettes manufactured outside of the United States, the primary source of supply may be the manufacturer or may be an agent of the manufacturer. Distributing agents and wholesale dealers in Florida will be prohibited from purchasing cigarettes from anyone other than the primary source of supply.

The bill requires that prior to issuance of a temporary cigarette permit, final approval of a cigarette permit, and prior to annual renewal of a cigarette permit, the applicant must provide the Division of Alcoholic Beverages and Tobacco with an affirmation from the manufacturer, or in the case of cigarettes manufactured outside of the United States from the primary source of supply, that the manufacturer intends to provide cigarettes to the applicant.

The bill provides penalties for non-compliance and makes various technical amendments to Chapter 210.

The bill's provisions may result in an indeterminate increase in cigarette tax collections. The cost to the division of implementing this legislation is insignificant.

The act would take effect upon becoming a law, however, the provision for registration as the primary source of supply and restrictions on purchases of cigarettes from anyone else, would take effect on October 1, 1997.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Chapter 210, F.S., provides the regulatory and tax structure for Florida's tobacco laws. The Division of Alcoholic Beverages and Tobacco of the Department of Business and Professional Regulation is charged with supervising the distribution of cigarettes and other tobacco products including issuing permits for cigarette distributing agents, wholesale dealers, exporters, and retail dealers; collection and deposit of related taxes and fees; conducting audits; making tax assessments; seizing non-tax paid products; conducting criminal and administrative investigations; and imposing penalties for violations. Part I of Chapter 210 addresses cigarettes and Part II addresses other tobacco products.

Cigarettes are a highly taxed and highly regulated product in the State of Florida. Florida has one of the highest excise tax rates on cigarettes in the nation. For FY 1995/96 cigarette excise taxes generated over \$438 million in revenue for the state.

Section 210.15, F.S., requires every person or business desiring to deal in cigarettes as a distributing agent, wholesale dealer, or exporter to obtain a cigarette permit and establishes standards for qualification. Temporary permits are issued upon payment of the applicable fee and filing of a completed application which, on its face, does not disclose any impairment to licensure.

The permit fee for a distributing agent is statutorily established at \$5 and is reissued annually upon payment of the \$5 fee. Distributing agents receive cigarettes in interstate or intrastate commerce and typically store the cigarettes in large warehouses while awaiting distribution instructions from the manufacturer. Distributing agents, at the direction of the manufacturer, then distribute the cigarettes to wholesale dealers or to other distributing agents.

Wholesale dealers are defined as persons or businesses who sell cigarettes to retailers or to other wholesalers. The annual permit fee for a wholesale dealer is statutorily set at \$100 and is reissued annually upon payment of the \$100 fee. Anyone who operates more than one cigarette vending machine in more than one location is also classified as a wholesale dealer.

Wholesale dealers may be either "stamping agents" or non-stamping "tax-paid" wholesalers. A stamping agent wholesaler pays the state cigarette excise tax required by s. 210.02, F.S., at the time the agent obtains the cigarette tax stamps from the division or the stamping agent may arrange credit terms. These stamping agents place the excise tax stamps on cigarette packages prior to resale to other wholesalers or retailers. The division regulates approximately 120 cigarette stamping agent wholesalers. Tax-paid wholesale dealers receive cigarettes from stamping agents with the tax stamps already affixed. The division regulates approximately 400 non-stampers.

Exporters receive or transport tax-exempt cigarettes for delivery beyond the borders of the state and store them in bonded warehouses prior to shipment into foreign commerce. The annual permit fee for exporters is statutorily set at \$100 and is reissued annually upon payment of the \$100 fee.

There is no statutory definition for a cigarette importer. Importers, or persons who obtain cigarettes via foreign commerce, are licensed as wholesale dealers. These wholesalers typically receive cigarettes which have been shipped by the international arm of a domestic cigarette manufacturer to a foreign country but are diverted from that destination for various reasons. A consumption entry document for returned American goods is filed by the importer with the federal government at which time federal excise taxes are paid on the cigarettes. When the cigarettes clear U. S. Customs they are moved from a bonded warehouse to a non-bonded facility. At this point, the wholesaler/importer is required to affix the Florida excise tax stamp to the product prior to its further distribution. The division has limited ability to monitor these type transactions since they occur outside the state's jurisdiction.

Wholesale dealers who import cigarettes from the foreign commerce stream are usually able to purchase the cigarettes at a cost substantially less than those wholesale dealers who purchase the product through the domestic market.

B. EFFECT OF PROPOSED CHANGES:

The bill creates a regulatory structure, similar to that in existence for the regulation of wine and liquor, which prohibits a distributing agent or wholesale dealer from purchasing cigarettes from anyone other than the "primary source of supply." Each domestic manufacturer, whose brand is sold in Florida, must register with the Division of Alcoholic Beverages and Tobacco (DABT/division) as the primary source of supply. In the case of cigarettes manufactured outside of the United States, the primary source of supply may be an agent of the manufacturer, who, if the brand cannot be secured directly from the manufacturer by an American distributing agent or wholesale dealer is the source closest to the foreign manufacturer in the channel of commerce from whom the brand can be secured by an American permitholder.

Likewise, the bill prohibits the shipment from another state or a foreign country into this state, except directly by the registered primary source of supply. This provision would not prohibit another distributing agent or a wholesale dealer from receiving cigarettes from a distributing agent since the distributing agent acts as an arm of the manufacturer for distribution purposes.

In order to assist in tracking the movement of all cigarettes, the primary source of supply is required to provide the division a listing of their complete product line and a report of all shipments into the state. This information must be updated monthly. The DABT estimates that there are presently 122 different brands of cigarettes, each with between 5 and 20 extensions, i.e., lights, menthol, etc.

The bill requires that prior to issuance of a temporary initial cigarette permit or final approval of a cigarette permit, the applicant must file an affirmation from the manufacturer which attests to the manufacturer's intent to provide cigarettes to the applicant. In the case of cigarettes manufactured outside of the United States, the affirmation may be received from the registered primary source of supply. A newly executed affirmation must be filed annually as a condition of permit renewal.

Combined, these provisions will preclude a wholesale dealer from importing cigarettes which were originally destined for a foreign market into Florida. Moreover, the bill creates a regulatory mechanism which provides the division with increased capability to

track the movement of this taxable product from the manufacturer to the ultimate consumer. Cigarettes found in the state in violation of this requirement are subject to seizure and forfeiture. The division is also authorized to administratively fine, suspend, or revoke the permit of a distributing agent or wholesale dealer or the registration of a primary source of supply for violations of the law.

The bill amends the fingerprint requirements in Chapter 210 to make the requirement for submission of fingerprints permissive upon the request of the division rather than mandatory and makes other technical amendments to the cigarette permitting statute.

The requirements set forth in this legislation apply only to the commerce of cigarettes and not to other tobacco products such as snuff, cigars, etc.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

Yes. The bill authorizes the division to establish permit renewal dates by rule.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

NA

(3) any entitlement to a government service or benefit?

NA

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

NA

(2) what is the cost of such responsibility at the new level/agency?

NA

(3) how is the new agency accountable to the people governed?

NA

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

No.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

NA

4. Individual Freedom:

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

No.

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

Yes. At present wholesale dealers, operating out of a free trade zone, may import domestically manufactured cigarettes which were destined for a foreign market into the state, pay the applicable state and federal excise taxes, and distribute to retail dealers. The provisions of the bill will effectively prevent the continuation of this practice.

5. Family Empowerment:

- a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

NA

(2) Who makes the decisions?

NA

(3) Are private alternatives permitted?

NA

(4) Are families required to participate in a program?

NA

(5) Are families penalized for not participating in a program?

NA

- b. Does the bill directly affect the legal rights and obligations between family members?

NA

- c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

NA

(2) service providers?

NA

(3) government employees/agencies?

NA

D. SECTION-BY-SECTION RESEARCH:

Section 1. Creates s. 210.155, F.S., to provide that in the case of domestic cigarettes, each cigarette manufacturer must register as the primary source of supply for all of that manufacturer's cigarette brands which are offered for sale in the state. A foreign cigarette manufacturer or an agent of a foreign cigarette manufacturer may be registered as the primary source of supply. No cigarette product shall be shipped into Florida from another state or foreign country except from the primary source of supply, registered as required in subsection (2), for the brand of cigarettes being shipped. Cigarettes found in the state in violation of this section are subject to seizure and forfeiture. The provisions contained in this section will take effect October 1, 1997.

Section 2. Amends s. 210.15, F.S., to require that each cigarette permit application be accompanied by an affirmation from the manufacturer on a form approved by the division. This affirmation must confirm the manufacturer's intent to provide cigarettes to the distributing agent or wholesale dealer who is applying for the cigarette permit and must be received by the division prior to final approval of the cigarette permit. In the case of cigarettes manufactured outside of the United States, the permit application must be accompanied by an affirmation from the primary source of supply, which may be the manufacturer or may be an agent of the manufacturer. Under all circumstances, a newly executed affirmation must be filed annually with the division as a condition of permit renewal. This section also makes submission of fingerprints by applicants for licensure dependent upon the division's request for same and makes other technical changes.

Section 3. Amends s. 210.151, F.S., to specify that the manufacturer's affirmation required by s. 210.15, F.S., must be received by the division prior to issuance of a temporary initial cigarette permit.

Section 4. Amends s. 210.16, F.S., to grant power and authority to the division to administratively fine, suspend, or revoke the registration of a primary source of supply.

Section 5. Provides that the act shall take effect upon becoming a law.

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

Expenditures:

The division will incur the initial cost of establishing this registration process, i.e., printing, notification, etc. This cost is insignificant.

2. Recurring Effects:

Revenues:

See section D., Fiscal Comments.

Expenditures:

The division will incur the ongoing cost associated with registrations as the primary source of supply which are required by this bill and has indicated the need for funding one additional Regulation Specialist position.

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

See A.1. and A.2. above.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

Revenues:

See section D., Fiscal Comments.

3. Long Run Effects Other Than Normal Growth:

If the enhanced audit capabilities provided by this legislation result in the collection of increased excise tax revenue, local governments will benefit to the degree the various trust funds receive allocations.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

Cigarette retailers who may have been able to purchase cigarettes at a reduced cost from wholesalers who obtain products diverted from the international market, will experience an increase in the cost of the product. Likewise, if these retailers passed their cost savings on to the ultimate consumer, and are now unable to do so, the consumer will experience an increase in the cost of the product.

2. Direct Private Sector Benefits:

Proponents of this legislation believe this proposal will ensure consumers do not receive products which may be of inferior quality (e.g., grade or blends of tobaccos, additives, etc.) or perhaps counterfeit.

3. Effects on Competition, Private Enterprise and Employment Markets:

Proponents of this legislation believe this regulatory structure equalizes competition by ensuring cigarette wholesalers in Florida, who obtain their products from traditional domestic sources, do not operate at a competitive disadvantage with wholesalers who may obtain cigarettes at a reduced price via the international market.

D. FISCAL COMMENTS:

The provisions of this bill will assist the division in tracking the movement of cigarettes in the state and may result in an indeterminate increase in collection of cigarette excise tax revenue. Such increase in tax revenue would be distributed to the following funds in accordance with the percentages specified in s. 212.20, F.S.: General Revenue Fund, Alcoholic Beverage and Tobacco Trust Fund, Public Medical Assistance Trust Fund, Municipal Financial Assistance Trust Fund, and the Revenue Sharing Trust Funds for Municipalities and Counties.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill will not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. **REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:**

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. **COMMENTS:**

This regulatory structure was generally patterned after those already in place for the registration of wine and spirits. To cover the cost of registration, the primary source of supply is required to pay a brand registration fee for each brand of wine or spirits registered with the division. There is no similar provision in this bill to cover the cost of registration for the different brands of cigarettes.

This bill addresses cigarettes, but does not include other tobacco products such as snuffs, cigars, etc. Since the regulatory structure for the two products are nearly otherwise identical, if this regulatory concept is deemed appropriate for cigarettes, it would also seem appropriate that other tobacco products would be included.

VI. **AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:**

VII. **SIGNATURES:**

COMMITTEE ON REGULATED SERVICES:

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