

BaltAC

FROM	NAME & TITLE	Robert Cename, Budget Director	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4774		
	SUBJECT	City Council Bill 20-0631 Excise Tax-Electronic Smoking Devices		

DATE:

TO

The Honorable President and
Members of the City Council
City Hall, Room 400

November 9, 2020

Position: Support

The Department of Finance is herein reporting on City Council Bill 20-0631, Excise Tax-Electronic Smoking Devices, the purpose of which is to establish an excise tax on the distribution of electronic smoking devices (ESD).

Fiscal Impact Summary

The Department of Finance anticipates this legislation will generate up to \$388,000 annually in revenue.

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
General Fund Expense	\$64,000	\$64,000	\$64,000	\$64,000	\$64,000
General Fund Revenue	\$452,000	\$452,000	\$452,000	\$452,000	\$452,000
Net Impact	\$388,000	\$388,000	\$388,000	\$388,000	\$388,000

Background

As of June 30, 2020, 25 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands have passed legislation that requires a tax on e-cigarettes. Maryland currently applies an excise tax to cigarettes sold in the state, but local jurisdictions are prohibited from enacting any similar taxes on cigarette products. However, taxation of ESD is not similarly regulated. Local jurisdictions are able to enforce laws locally on nicotine-delivering products, such as the 30% excise tax implemented by Montgomery County, Maryland on ESD in 2015. Taxation of ESD is also a means to reduce smoking and the health implications of nicotine use.

Fiscal Impact

The Department of Finance estimates an excise tax on the distribution of ESD to generate up to \$388,000 annually.

Annual Cost and Revenue	
Personnel Cost	\$64,158
Estimated Revenue	\$452,278
Net Impact	\$388,120

Based on Montgomery County's ESD excise tax and wholesale data, Finance estimates that an individual user of ESD's would generate \$118 dollars in wholesale value. Approximately 2.7% of Baltimore City adults, or 12,817 individuals, use electronic smoking devices. This equates to a total of \$1.5 million of taxable ESD wholesale amount and applying the 30% excise tax would result in approximately \$452,000 annually. This estimate assumes no future change to consumption habits, change in purchasing habits, or fluctuation in prices of ESD. However, an excise tax on the distribution of ESD in the City may result in

some users purchasing products in neighboring Counties that do not impose a tax or change consumption habits, which may result in actual revenues below this projection.

	Montgomery County*	Baltimore City
Population as of July 2019	1,050,688	593,400
Population over 18 as of July 2019	807,979	474,720
Electronic Smoking Device (ESD) Users	25,855	12,817
Taxable ESD Wholesale Amount	\$3,041,115	\$1,507,593**
Taxable ESD Wholesale Amount per ESD user	\$118/ESD user	N/A
Excise Tax (30%)	\$912,334	\$452,278

* Actual 4-year average

** This estimate is calculated by multiplying the Montgomery County taxable whole sale amount per ESD users by the number of Baltimore City ESD users.

To support this additional tax, the Bureau of Revenue collections will need an additional FTE, which will cost approximately \$61,000 for salary and benefits. However, no operational changes are required since the law is written in the same way as the existing Beverage Container Tax, Article 28 - §20.

Personnel Cost	
Salary	\$39,064
Other Personnel Costs	\$25,094
Total Personnel Cost	\$64,158

Other Considerations

As of 2019, the ESD market is segmented into multiple sales channels including vaping shops (19%); convenience stores, food, drug and mass retail channels (53%); and online retail sales (28%). Enforcement will require that all distributors be identified, which could be challenging across the different sales channels and especially among online distributors. In addition, the State does not maintain a database of ESD wholesalers, only wholesalers for cigarette products. These challenges may lead to the estimated revenue not being achieved until after several years, as seen in Montgomery County after their enactment of a similar tax in 2015 and reached estimated revenue levels in 2019.

Conclusion

This legislation establishes an excise tax on the distribution of ESD, contributing up to \$388,000 in revenue annually to the City's General Fund once enacted.

For the reasons stated above, the Department of Finance supports City Council Bill 20-0631.

cc: Henry Raymond
 Matthew Stegman
 Nina Themelis