

**DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement**

1. Patron R. Lee Ware, Jr.

2. Bill Number HB 1277

3. Committee Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

4. Title Cigarette Manufacturers and Stamping
Agents; Filing of Certifications and Reports

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. Summary/Purpose:

This bill would require that (1) the annual certification required of cigarette manufacturers regarding their status as participating or nonparticipating manufacturers under the Master Settlement Agreement and (2) the quarterly report required of cigarette stamping agents listing the cigarettes they have stamped be filed with the Office of the Attorney General ("OAG") rather than the Department of Taxation ("TAX"). This bill would also provide that these reports would continue to be considered confidential taxpayer information.

The effective date of this bill is not specified.

6. No Fiscal Impact. (See Line 8.)

7. Budget amendment necessary: No.

8. Fiscal implications:

This bill would have no impact on state revenues. The introduced budget assumed the transfer of the funding from TAX to the OAG to administer the responsibilities that are reassigned by this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation
Office of the Attorney General

10. Technical amendment necessary: No.

11. Other comments:

Master Settlement Agreement

On November 23, 1998, leading United States tobacco product manufacturers, called participating manufacturers ("PMs") entered into the Master Settlement Agreement ("MSA") with the Commonwealth and 45 other states. The agreement obligated PMs, in return for release from past, present and certain future claims against them, to pay substantial sums to the Commonwealth. Tobacco product manufacturers who are not parties to the MSA, called nonparticipating manufacturers ("NPMs"), must pay sums into a qualified escrow fund from which claims may be paid if such manufacturers are determined in future years to have acted culpably. Under current law, escrowed funds may not be released to the NPM until 25 years after the date they were placed in escrow. The escrow fund serves as a financial responsibility mechanism to guarantee a source of compensation and to prevent NPMs from becoming judgment proof before liability may arise. The NPM statute must be diligently enforced to ensure that a state is exempt from the application of the NPM adjustment contained in the MSA.

Under current law, all cigarette manufacturers are required to file with TAX an annual certification regarding their status as participating or nonparticipating manufacturers under the Master Settlement Agreement. Cigarette stamping agents are required to file a quarterly report with TAX that includes a list by brand family of the total number of cigarettes for which the stamping agent affixed stamps during the previous quarter.

Proposal

This bill would require that (1) the annual certification required of cigarette manufacturers regarding their status as participating or nonparticipating manufacturers under the Master Settlement Agreement and (2) the quarterly report required of cigarette stamping agents listing the cigarettes they have stamped be filed with the Office of the Attorney General rather than TAX. This bill would also provide that these reports would continue to be considered confidential taxpayer information.

cc : Secretary of Finance

Date: 02/23/2006 JEM