



2002 Legislation Increasing the Cigarette Tax and Affecting Licensed Cigarette Distributors That Are Stampers

Purpose: This Special Notice describes recently enacted legislation increasing the cigarette tax rate effective April 3, 2002, and imposing a tax, as of the close of business on April 2, 2002, on inventory of packages of cigarettes to which only an old cigarette tax stamp is affixed.

Effective Date: April 3, 2002.

Statutory Authority: 2002 Conn. Pub. Acts 1, §1 (amending Conn. Gen. Stat. §12-296), §2 (amending Conn. Gen. Stat. §12-316), and §3.

Definitions: As used in this Special Notice:

- *DRS* means the Department of Revenue Services.
- *Stamper* means a licensed distributor that may lawfully purchase unstamped packages of cigarettes and that affixes Connecticut cigarette tax stamps to those packages before selling them.
- *Unstamped packages of cigarettes* mean packages of cigarettes to which no Connecticut cigarette tax stamp is affixed.
- *Old cigarette tax stamp* means either a yellow \$.50 Connecticut cigarette tax stamp (for packages of 20 cigarettes) or an orange \$.625 Connecticut cigarette tax stamp (for packages of 25 cigarettes).
- *New cigarette tax stamp* means either a green \$1.11 Connecticut cigarette tax stamp (for packages of 20 cigarettes) or a blue \$1.3875 Connecticut cigarette tax stamp (for packages of 25 cigarettes).
- *Floor tax stamp* means either a red \$.61 Connecticut cigarette tax stamp (for packages of 20 cigarettes) or a brown \$.7625 Connecticut cigarette tax stamp (for packages of 25 cigarettes). The floor tax stamp is a self-adhesive, peel-and-stick stamp.

- *Participating distributor* means a licensed distributor (whether or not a stamper) who purchases floor tax stamps for resale to other licensed distributors or to licensed dealers.

Tax Rate Increase: The cigarette tax rate will increase from 25 mills to 55.5 mills per cigarette on April 3, 2002.

	Tax before 4-3-2002	Tax on or after 4-3-2002
Packages		
20 cigarettes per package	\$.50	\$1.11
25 cigarettes per package	.625	1.3875
Cartons		
10 packs per carton (20s)	\$5.00	\$11.10
10 packs per carton (25s)	6.25	13.875
8 packs per carton (25s)	5.00	11.10

Tax on Cigarette Inventory as of April 2, 2002: 2002 Conn. Pub. Acts 1, §3 imposes a tax on each distributor's inventory ("floor tax"), as of the close of business on April 2, 2002, on packages of cigarettes (including those in cartons) to which only an old cigarette tax stamp is affixed.

Floor Tax Stamps to Be Affixed as of the Close of Business on April 2, 2002, to Packages of Cigarettes to Which Only an Old Cigarette Tax Stamp Is Affixed: Payment of the floor tax shall be evidenced by affixing floor tax stamps. Each licensed distributor must affix a:

- Red \$.61 floor tax stamp to each package of 20 cigarettes to which only a yellow \$.50 Connecticut cigarette tax stamp is affixed.

- Brown \$.7625 floor tax stamp to each package of 25 cigarettes to which only an orange* \$.625 Connecticut cigarette tax stamp is affixed.

*red if a water-applied stamp

The floor tax stamps must be affixed as of the close of business on April 2, 2002. A floor tax stamp must be affixed to the bottom of a package of cigarettes next to the already affixed old cigarette tax stamp. Both cigarette tax stamps must be visible. Cartons containing packages of cigarettes to which only an old cigarette tax stamp is affixed must be opened, and a floor tax stamp must be affixed to each package within the carton.

Close of Business on April 2, 2002: If a stamper's business closes after 11:59 p.m. on April 2, 2002, the cigarette inventory must be taken as of 11:59 p.m. on April 2, 2002, and the floor tax stamps must be affixed at that time.

Floor Tax Stamps Not Required to Be Affixed to Certain Packages of Cigarettes: A stamper is not required to affix floor tax stamps to:

- Packages of cigarettes to which a new cigarette tax stamp is already affixed; or
 - Unstamped packages of cigarettes.
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Cigarette Inventory Report: Each stamper must complete and file form **AU-930-61**, *Distributor's Cigarette Inventory Report*, with DRS, and report:

- Its inventory of packages of cigarettes to which only an old cigarette tax stamp is affixed as of the close of business on April 2, 2002;
- The quantity of floor tax stamps that the stamper purchased, and whether the floor tax stamps were purchased from a participating distributor or from DRS; and
- If unused floor tax stamps were returned by the stamper, the quantity of floor tax stamps that were returned, and whether the floor tax stamps were returned to a participating distributor or to DRS; **and**
- If a participating distributor:
 - The name of each licensed distributor or licensed dealer to whom floor tax stamps were sold and the quantity of floor tax stamps that were sold to each distributor or dealer, and

- If unused floor tax stamps were returned to the participating distributor, the name of each licensed distributor or licensed dealer who returned stamps and the quantity of stamps that were returned by each.

Form **AU-930-61** must be filed no later than May 1, 2002, but may be filed sooner if all the required information is available sooner. The failure of a stamper to complete and file a cigarette inventory report on or before that date shall be sufficient reason to revoke the stamper's license. Each stamper also must retain a copy of its signed **AU-930-61** on the premises for which its license is issued for inspection by DRS agents.

Purchase of Floor Tax Stamps: The floor tax stamps will be available for purchase starting March 20, 2002. Floor tax stamps may be purchased from a participating distributor or from DRS. All licensed distributors, whether or not stampers, may choose to be participating distributors.

Purchasing from DRS. To purchase floor tax stamps from DRS, a stamper must complete form **OP-419-61**, *Order Form for Cigarette Floor Tax Stamps*, and will be entitled to a 1% discount on the purchase of stamps. A stamper may choose to purchase stamps by mail. A stamper may also choose to purchase floor tax stamps in person at a DRS office, but should purchase the stamps at the DRS office where the stamper customarily purchases cigarette tax stamps. Payments for stamps must be made by check or money order. Cash payments for floor tax stamps will not be accepted at any DRS office other than DRS headquarters. A stamper who has filed a surety bond with DRS may pay for floor tax stamps within 30 days after the date of purchase. Floor tax stamps paid for within 30 days after the date of purchase *will not* be added to other cigarette tax stamps purchased on credit to determine if a stamper has exceeded its surety bond. DRS will offer extended hours at its headquarters and field offices for stampers to purchase floor tax stamps on Saturday, March 30, 2002, from 9:00 a.m. to 1:00 p.m., and on Monday and Tuesday, April 1 and 2, 2002, from 8:00 a.m. to 8:00 p.m. To avoid last minute delays and potentially long lines, DRS recommends purchasing floor tax stamps before March 29, 2002.

Resale of Floor Tax Stamps: A participating distributor may purchase tax stamps for resale to other licensed distributors or to licensed dealers. This will

facilitate the affixing of stamps by those distributors or dealers to packages of cigarettes to which only an old cigarette tax stamp is affixed. However, a participating distributor must take back any unused stamps from any distributor or dealer who purchased those stamps from the participating distributor, and allow a refund or credit for unused stamps, as long as the stamps are returned to the participating distributor no later than April 19, 2002.

Return of Unused Floor Tax Stamps: If a stamper purchases floor tax stamps from DRS, and some of those stamps are not used, the stamper must return the stamps to DRS either by mail or in person at the DRS office where the stamper customarily purchases cigarette tax stamps. In returning those stamps to DRS, the stamper must bring or include both of the following items:

- **OP-420**, *Refund Request for Unused Floor Tax Stamps*. DRS will furnish this form to the stamper at the time the floor tax stamps are purchased.
- The taxpayer receipt of **OP-419-61** that was completed by the stamper when purchasing the stamps from DRS.

If those unused stamps are returned to DRS no later than May 1, 2002, along with form **OP-420** and the taxpayer receipt of **OP-419-61**, the stamper will be mailed a check refunding the floor tax paid on the unused stamps after DRS has examined the stamper's **AU-930-61** and found it to be satisfactory. A stamper **will not** be refunded the floor tax paid on the unused stamps at the time the stamper returns the unused stamps.

If a stamper purchases floor tax stamps from a participating distributor, and some of those stamps are not used, the stamper must return the unused stamps to the distributor. If those unused stamps are returned to the distributor no later than April 19, 2002, the distributor must allow a refund or credit to the stamper.

Purchase of New Cigarette Tax Stamps: The new cigarette tax stamps—a green \$1.11 Connecticut cigarette tax stamp (for packages of 20 cigarettes) and a blue \$1.3875 Connecticut cigarette tax stamp (for packages of 25 cigarettes)—will be available for purchase from DRS starting March 20, 2002. A stamper will be entitled to a 1% discount on the purchase of the new stamps. Before April 3, 2002, a stamper may sell packages of cigarettes to which a new cigarette tax stamp is affixed. This may simplify

matters for the persons to whom the stamper supplies cigarettes because they will not have to affix a floor tax stamp to any package of cigarettes to which a new cigarette tax stamp is affixed.

Purchase of Old Cigarette Tax Stamps: After March 30, 2002 (for stamps purchased in person at a DRS office), or after March 28, 2002 (for stamps to be shipped), DRS will not sell old cigarette tax stamps to stampers, and will sell only new cigarette tax stamps to stampers.

Return of Old Cigarette Tax Stamps: A stamper must return old cigarette tax stamps to DRS no later than April 8, 2002, either by mail or in person at the DRS office where the stamper customarily purchases cigarette tax stamps.

Certain March 2002 and April 2002 Reports Revised: The following monthly reports that stampers are required to file with DRS for the calendar months of March and April 2002 are being revised by DRS to cover the periods March 1, 2002, through April 2, 2002, and April 3, 2002, through April 30, 2002, respectively, and will be mailed by DRS to stampers:

Resident Distributors

- **Form CT-15**, *Monthly Tax Stamp and Cigarette Report/Resident Distributor*
- **Form CT-31**, *Cigarette and Unaffixed Stamp Inventory Report for Resident Distributors*
- **Form CT-39**, *Record of Cigarette Stamps Purchased/Resident Distributor*

Nonresident Distributors

- **Form CT-15A**, *Monthly Tax Stamp and Cigarette Report/Nonresident Distributor*
 - **Form CT-31A**, *Cigarette and Unaffixed Stamp Inventory Report for Nonresident Distributors*
 - **Form CT-38**, *Record of Cigarette Stamps Purchased/Nonresident Distributor*
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Surety Bond: Due to the cigarette tax increase, each stamper may wish to consider increasing the amount of its surety bond. In general, a stamper's purchases of cigarette tax stamps on credit may not exceed the amount of the stamper's surety bond. However, a stamper who has filed a surety bond with DRS may purchase floor tax stamps on credit. Those purchases *will not* be taken into account in determining whether

the amount of the stamper's purchases of *other* stamps on credit exceeds the surety bond, provided the floor tax stamps are paid for within 30 days after purchase. A stamper who has not filed a surety bond with DRS may *not* purchase floor tax stamps on credit.

Enforcement: On or after April 3, 2002, packages of cigarettes to which only an old cigarette tax stamp is affixed are contraband, subject to confiscation. On or after April 3, 2002, any stamper selling or offering to sell packages of cigarettes to which either a new cigarette tax stamp is not affixed, or both an old cigarette tax stamp and a floor tax stamp are not affixed, is subject to criminal sanctions including a fine, imprisonment or both. (If more than 20,000 cigarettes are involved, the crime is a felony.) DRS audit and enforcement personnel will be out in force to ensure that floor tax stamps are properly affixed, and to confiscate improperly stamped packages of cigarettes. Any stamper violating the law will also be subject to tax, penalty, and interest on improperly stamped packages of cigarettes, and will be subject to civil sanctions including the suspension or revocation of the stamper's license, stamping privileges, or both. Those wishing to report any distributor or dealer violating the law should contact the DRS Special Investigations Section at **860-297-5877** during business hours, Monday through Friday, 8:00 a.m. to 5:00 p.m.

Effect on Other Documents: None affected.

Effect of This Document: A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS and may be referred to for general guidance by taxpayers or tax practitioners.

For Further Information on the Cigarette Tax Increase and the Floor Tax: Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday, at **860-297-5770**, or visit the DRS Web site: **www.drs.state.ct.us** and click on "Cigarette Tax Increase."

Forms and Publications: Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: **www.drs.state.ct.us**
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (toll-free within Connecticut) and select **Option 2** from a touch-tone phone.
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