

**TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Education and Cultural Affairs
Hearing Date: *March 3, 2025, Monday, at 10:00 A.M.*

LD 377 – “*An Act to Establish a University of Maine Medical School and to Dedicate Funds from Raising the Cigarette Tax to the School*”

Senator Rafferty, Representative Murphy, and members of the Education and Cultural Affairs Committee – good morning, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 377, “*An Act to Establish a University of Maine Medical School and to Dedicate Funds from Raising the Cigarette Tax to the School.*”

The cigarette tax rate increase proposed in this bill, from \$2 per pack of 20 cigarettes to \$3, is the same increase proposed in Part E of the Governor’s Biennial Budget. The Governor’s budget proposal directs all revenue raised by the cigarette tax increase to the General Fund while this bill would allocate one-third of that anticipated revenue to the University of Maine System.

While the Administration supports an increase in the cigarette tax rate, this issue is better addressed in the context of the Biennial Budget where the needs of the State are being more broadly considered. In addition, the Biennial Budget proposal addresses many technical issues in crafting a cigarette tax rate increase that are not addressed by this bill, LD 377.

Turning to those technical issues, this bill does not include significant provisions found in Part E of the Governor’s Biennial Budget proposal and in past

cigarette tax increase proposals. Any increase to the cigarette tax rate would automatically cause the tobacco products tax rate to increase under 36 M.R.S. § 4403(5) by an equivalent amount; as written, LD 377 would trigger this increase, but it would not codify the new rates in the Maine Revised Statutes. The Department recommends codifying the new rates in statute.

Historically, an increase to the cigarette tax rate has also required a floor stock tax, which applies to cigarettes held by a retailer in inventory on the date the increase takes effect. Part E of the Governor's Biennial Budget proposal includes such a floor stock requirement; LD 377 does not. Should the bill be amended to include a floor stock tax, MRS auditors and administrative staff would be required to assist with the floor stock inventory verification beginning on the date the tax rate increase is effective through the following week. July 1, 2026, the effective date of the rate increase, is a Wednesday, and July 3 is a Friday and state holiday. MRS strongly recommends adjusting the effective date to Monday, July 6, to facilitate the floor stock inventory verification process should the bill be amended to include a floor stock tax.

The Cigarette Tax statute currently provides a discount of 1.15% to distributors who purchase cigarette stamps, but that discount is limited to stamps with a face value of 100 mills. The discount is provided to distributors to offset the costs associated with maintaining the machinery and equipment required to affix the stamps to the packs of cigarettes sold in Maine. LD 377 increases the mill rate to a face value of 150 mills, but does not provide a commensurate discount. Without amendment, LD 377 would eliminate a distributor's discount once the increase goes into effect. Lastly, the bill should include timing language for the revenue transfer to the University of Maine System; for example, monthly or quarterly.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.