



Special Notice

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711

Cigarette and Tobacco Products Tax Rate Increase and New Products Subject to Tax

California voters recently approved Proposition 56, which increases the excise tax rate on cigarettes and expands the definition of “tobacco products” for tax purposes to include any type of tobacco, nicotine, little cigars, and electronic cigarettes sold in combination with nicotine. It also imposes a floor stock and stamp adjustment tax on cigarettes

Tax increase

On April 1, 2017, the cigarette tax rate will increase from \$0.0435 to \$0.1435 per cigarette. For example, the tax on a package of 20 cigarettes will increase from \$0.87 to \$2.87. On July 1, 2017, the tax rate on tobacco products, including electronic cigarettes and other nicotine delivery devices sold in combination with nicotine, will increase at a rate equivalent to the increase on cigarettes.

New products subject to excise tax

Beginning April 1, 2017, [distribution](#) of the following products will be subject to the current tobacco products tax rate of 27.30 percent of the wholesale cost of the product:

- Little cigars (a cigarette tax stamp will no longer be required to be affixed to the package);
- Any product made, derived, or containing any amount of tobacco that is intended for human consumption (previously products had to contain at least 50 percent tobacco, be a smoking or chewing tobacco, or snuff to be subject to tax);
- Nicotine that is intended for human consumption (sold with or without a nicotine delivery device); and
- Nicotine delivery devices (including, but not limited to, electronic cigarettes, e-cigars, e-pipes, vape pens and e-hookahs) sold in combination with substances containing nicotine.

Products not subject to excise tax

- Nicotine delivery devices sold **independently and not in combination with** any liquid or substance containing nicotine;
- Any battery, battery charger, carrying case, or any other accessory used in the operation of a nicotine delivery device if sold separately from a substance containing nicotine; and
- Any product approved by the U. S. Food and Drug Administration as a tobacco cessation product or other therapeutic purpose when that product is marketed and sold for such approved use (for instance, nicotine patches).

Retailer and wholesaler cigarette floor stock tax

Proposition 56 requires retailers and wholesalers to take inventory of all cigarettes in their possession or control as of 12:01 a.m. on April 1, 2017, and pay the additional tax on that inventory. This is commonly referred to as a “floor stock tax.” Floor stock tax returns will be mailed prior to April 1, 2017, and will be due, along with payment of the excise tax, on or before July 1, 2017. Additional information will be sent with the floor stock tax return.

Distributor stamp adjustment tax and stamps purchased after April 1, 2017

Proposition 56 requires distributors to take inventory of all the cigarette tax stamps (both affixed and unaffixed) in their possession or control as of 12:01 a.m. on April 1, 2017, and to pay the additional tax on that inventory. This is commonly known as a “stamp adjustment tax.” Stamp adjustment tax returns will be mailed prior to April 1, 2017, and will be due, along with payment of the excise tax, on or before July 1, 2017. Additional information will be sent with the stamp tax adjustment return.

The process for ordering cigarette tax stamps will not change. However, cigarette tax stamps purchased on or after April 1, 2017, will have a different background color than the current tax stamp. Distributors purchasing stamps by deferred-payment who need information regarding payment options, changes, or increases in their deferred-payment purchases are advised to contact the California State Board of Equalization’s (BOE) Stamp Desk at 1-916-341-6923. Additional information can also be found in [publication 63](#), *Cigarette Distributor Licensing and Tax Stamp Guide*.

For additional information

Additional information regarding the provisions of Proposition 56 is [available online](#). You may also view the BOE’s online [Cigarette and Tobacco Products Tax Guide](#).

If you have questions regarding the tax increase or any provisions of Proposition 56, visit the BOE’s website at www.boe.ca.gov as it will be continuously updated. Or, you may call the Customer Service Center at 1-800-400-7115 (TTY:711) to speak with a customer service representative. From the main menu, select the option *Special Taxes and Fees*. Customer service representatives are available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays.