



Special Notice

CALIFORNIA STATE BOARD
OF EQUALIZATION
450 N STREET
SACRAMENTO, CA 95814

Cigarette Retailers and Wholesalers Cigarette Floor Stock Tax Return Requirement

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711

With the passage of Proposition 56, the excise tax rate on cigarettes increases, and there is a cigarette floor stock tax requirement on retailers and wholesalers. Also, new products are added to the definition of "tobacco products" for excise tax purposes.

Cigarette excise tax rate increase

On April 1, 2017, the excise tax rate on cigarettes will increase from \$0.0435 to \$0.1435 per cigarette. For example, the excise tax on a package of 20 cigarettes will increase from \$0.87 to \$2.87.

Cigarette floor stock tax return – retailers and wholesalers

Proposition 56 requires retailers and wholesalers to take inventory of all the stamped packages of cigarettes in their possession or control as of 12:01 a.m. on April 1, 2017, and to pay the additional excise tax on that inventory. This is commonly known as a "floor stock tax." Retailers are required to complete a [BOE-501-Q1, Cigarette Dealer \(Retailer\) Floor Stock Tax Return](#). Wholesalers are required to complete a [BOE-501-Q2, Cigarette Wholesaler Floor Stock Tax Return](#). Retailers that are also registered as wholesalers must report both their retail and wholesale cigarette stock and pay the floor stock tax on their [BOE-501-Q2, Cigarette Wholesaler Floor Stock Tax Return](#). Floor stock tax returns for retailers and wholesalers will be due, along with payment of the additional floor stock tax (\$0.10 per cigarette), by July 1, 2017. Retailers and wholesalers will receive a copy of this notice with their floor stock return. Information regarding payment options may be found on the California State Board of Equalization's (BOE) website under the "Make a Payment" tab at www.boe.ca.gov/electro/payment.htm on the BOE homepage at www.boe.ca.gov.

Retailers and wholesalers should keep records of stamped packages of cigarettes in their possession or under their control as of 12:01 a.m. on April 1, 2017, to substantiate their floor stock tax return and payment.

Entities selling items such as eCigarettes, atomizers, vaping tanks or mods, eLiquid, or eJuice to the public from a California retail location that have recently registered with the BOE for a Cigarette and Tobacco Products Retailer License must also complete a [BOE-501-Q1, Cigarette Dealer \(Retailer\) Floor Stock Tax Return](#), and return it to the BOE. The form must be completed even if there are no stamped packages of cigarettes to report or any floor stock tax due.

Little or small cigars to be classified as "tobacco products"

Beginning April 1, 2017, little or small cigars will be considered tobacco products. Prior to the passage of Proposition 56, products labeled as little or small cigars under federal regulation and the Federal Cigarette Labeling and Advertising Act were classified as cigarettes and required a cigarette tax stamp. Proposition 56 expanded the definition of "tobacco products" under the California Cigarette and Tobacco Products Tax Law to include little or small cigars. Therefore, retailers and wholesalers must not include stamped packages of little or small cigars in their inventory count when completing their cigarette floor stock tax return.

On and after April 1, 2017, the excise tax will apply to the distribution (www.boe.ca.gov/lawguides/business/current/btlg/vol3/ctptl/ctptl-30008.html) of little or small cigars at the same rate as other tobacco products. Licensed distributors can distribute the stamped packages of little or small cigars to licensed retailers and wholesalers as "tax paid" tobacco products, until their inventories of stamped packages of little or small cigars are exhausted. Once existing inventories of stamped cigars are exhausted by distributors, products purchased by retailers

***Cigarette Retailers
and Wholesalers
Cigarette Floor
Stock Tax Return
Requirement***

and wholesalers after April 1, 2017, will no longer be stamped, since little cigars will be classified as tobacco products rather than cigarettes.

Any unstamped packages of little or small cigars within a licensed distributor's inventory that are distributed on and after April 1, 2017, should remain unstamped. Their subsequent distribution to licensed wholesalers and licensed retailers must be substantiated by a licensed distributor's sales invoice that indicates the amount of excise taxes due by the distributor on the sale or distribution of the tobacco products listed on the sales invoice, or a statement indicating that all California excise taxes are included in the total amount of the invoice.

New tobacco products subject to the tobacco products excise tax

Beginning April 1, 2017, the distribution of the following products will be subject to the tobacco products excise tax at the current rate of 27.30 percent.

- Little or small cigars
- Any type of product for human consumption that contains tobacco or nicotine
- Electronic cigarettes sold in combination with nicotine for a single price
- Any component, part, or accessory of an electronic cigarette that is used during the operation of the device when sold in combination with nicotine for a single price

Licensing and registration requirements

Entities that currently hold a valid Cigarette and Tobacco Products Retailer License for each of their licensed retail locations may continue to sell stamped cigarettes, little or small cigars, and any other items classified as "tobacco products" as long as they continue to purchase tax-paid products from licensed wholesalers and distributors.

Additionally, entities selling items such as eCigarettes, atomizers, vaping tanks or mods, eLiquid, or eJuice to the public from a California retail location that have recently registered with the BOE for a Cigarette and Tobacco Products Retailer License will also need to register for a Tobacco Products Distributor Account for taxation purposes if they purchase any of the above-mentioned items without payment of California excise tax from out-of-state sources, or from licensed importers or manufacturers in this state on or after April 1, 2017. These entities will also have to obtain a Cigarette and Tobacco Products Distributors License for each location where they distribute the above-mentioned items.

Entities that are currently registered with a Cigarette Wholesaler Account, but wish to wholesale little or small cigars or any other "tobacco products" after April 1, 2017, will need to obtain a Tobacco Products Wholesaler Account by applying for an account using online registration (<https://efile.boe.ca.gov/ereg/index.boe>). However, no changes are needed to any entities' current Cigarette and Tobacco Product Wholesaler License. Online registration is the most convenient way to register and is available 24 hours a day, seven days a week. Applicants may visit the BOE homepage at www.boe.ca.gov, and select "New Registration" to begin. The BOE's "Information Needed to Get Started" webpage at www.boe.ca.gov/electro/ings.htm contains a list of general information applicants may need for the registration process.

For additional information

Additional information regarding the provisions of Proposition 56 is available online at <http://voterguide.sos.ca.gov/en/propositions/56>. Retailers and wholesalers may also view the BOE's online *Cigarette and Tobacco Products Tax Guide* at www.boe.ca.gov/industry/cigarettes_tobacco_products.html.

For more information regarding the tax increase or any provisions of Proposition 56, please visit the BOE's website at www.boe.ca.gov as it will be continuously updated. Or, retailers and wholesalers 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*. Assistance is available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays.