



# Special Notice

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

## Cigarette Distributors Cigarette Stamp Adjustment Tax Return Requirement

EXECUTIVE DIRECTOR  
DAVID J. GAU

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

BOE WEBSITE AND  
BOARD MEMBER CONTACT  
INFORMATION  
[www.boe.ca.gov](http://www.boe.ca.gov)

### 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.

CUSTOMER SERVICE CENTER  
**1-800-400-7115**  
TTY  
**711**

### Cigarette stamp adjustment tax return – distributors

Distributors must take inventory of all cigarette tax stamps, both affixed and unaffixed, in their possession or under their control as of 12:01 a.m. on April 1, 2017, and pay the additional excise tax, referred to as a "stamp adjustment tax" on that inventory. Distributors are required to complete a [BOE-501-Q3, Cigarette Distributor Stamp Adjustment Tax Return](#), which is due, along with payment of the additional stamp adjustment tax (\$0.10 per cigarette), by July 1, 2017. 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](http://www.boe.ca.gov/electro/payment.htm) on the BOE homepage at [www.boe.ca.gov](http://www.boe.ca.gov).

Distributors should keep records of their inventory of affixed and unaffixed cigarette stamps in their possession or under their control as of 12:01 a.m. on April 1, 2017, to substantiate their stamp adjustment tax return and payment.

### 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, distributors must not include excess unaffixed tax stamps denominated as 10s and stamped packages of little or small cigars in their inventory count on their [BOE-501-CD, Cigarette Distributor's Tax Report](#) ([www.boe.ca.gov/pdf/boe501cd.pdf](http://www.boe.ca.gov/pdf/boe501cd.pdf)) and their *Cigarette Distributor Stamp Adjustment Tax Return*.

Distributors with inventories of unaffixed tax stamps denominated as 10s intended for application on packages of little cigars are advised to file a claim for refund and return the stamps to the BOE. Distributors may send their claim for refund by mail to the Appeals and Data Analysis Branch, P.O. Box 942879, Sacramento, CA 94279-0033, or fax to 1-916-323-9497, or email to [adab@boe.ca.gov](mailto:adab@boe.ca.gov). BOE staff will contact the distributor and provide instructions on how to return the unused stamps.

On and after April 1, 2017, the state excise tax will apply to the distribution ([www.boe.ca.gov/lawguides/business/current/btlg/vol3/ctptl/ctptl-30008.html](http://www.boe.ca.gov/lawguides/business/current/btlg/vol3/ctptl/ctptl-30008.html)) of little or small cigars at the same excise tax rate as other tobacco products. Currently, the excise tax rate on the distribution of tobacco products is 27.30 percent of the wholesale cost of the tobacco product. Effective April 1, 2017, distributors of little or small cigars will be responsible for remitting the tobacco products excise tax on their distributions of these products. Distributors with stamped packages of little or small cigars in their inventory on and after April 1, 2017, may distribute the stamped packages of little or small cigars as "tax paid" tobacco products to licensed wholesalers and retailers until their inventories of stamped packages of little or small cigars are exhausted. Any

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unstamped packages of little or small cigars within a distributor's inventory that are distributed on and after April 1, 2017, should remain unstamped. Their subsequent distribution to licensed wholesalers and 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. Tobacco distributors are required to report the sale or distribution of these products as taxable distributions on their [BOE 501-CT, Tobacco Products Distributor Tax Return \(www.boe.ca.gov/pdf/boe501ct.pdf\)](http://www.boe.ca.gov/pdf/boe501ct.pdf), and pay the excise taxes due.

**New tobacco products subject to the tobacco products excise tax**

Proposition 56 expands the definition of "tobacco products" for excise tax purposes to include, but not be limited to, the products listed below. Beginning April 1, 2017, the distribution of these products will be subject to the tobacco products excise tax at the current rate of 27.30 percent of the wholesale cost of the tobacco product.

- 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

Entities that currently hold a Tobacco Products Distributor Account and a Cigarette and Tobacco Products Distributor License will require no additional registration. Beginning April 1, 2017, tobacco products distributors are required to report the sale or distribution of the above-mentioned products as taxable distributions on their [BOE 501-CT, Tobacco Products Distributor Tax Return \(www.boe.ca.gov/pdf/boe501ct.pdf\)](http://www.boe.ca.gov/pdf/boe501ct.pdf).

**Cigarette stamps purchased on or after April 1, 2017**

Distributors will be able to purchase the existing version of cigarette tax stamps at the pre-Proposition 56 tax rate through March 30, 2017, at 10:00 a.m. (Pacific time). On April 1, 2017, the process for ordering cigarette tax stamps will not change. The new cigarette tax stamp, which will have a different background color than the current tax stamp, will be available for purchase on April 3, 2017, at 5:00 a.m. (Pacific time). Distributors that purchase stamps by the deferred payment option are advised to contact the BOE's Stamp Desk at 1-916-341-6923 for information regarding payment options, security requirements, and/or increases in the amount that may be deferred. Additional information may also be found in [publication 63, Cigarette Distributor Licensing and Tax Stamp Guide \(www.boe.ca.gov/pdf/pub63.pdf\)](http://www.boe.ca.gov/pdf/pub63.pdf). The cost of a roll of cigarette tax stamps will increase at a rate of the equivalent to \$0.10 per individual cigarette in accordance with Proposition 56 for all denominations of cigarette tax stamps, regardless of the size of the stamp roll. Additionally, Proposition 56 caps the 0.85 percent discount for cigarette tax stamps and meter readings to the first one dollar (\$1.00) in denominated value of the stamp or meter reading ([Revenue and Taxation Code section 30166](#)). These updates will be noted on the revised [BOE 663-ACTS, California Cigarette Tax Stamp Purchase Order form \(www.boe.ca.gov/pdf/boe663acts.pdf\)](http://www.boe.ca.gov/pdf/boe663acts.pdf).

**Registration to distribute tobacco products after April 1, 2017**

Entities that currently hold a Cigarette and Tobacco Products Distributor License for each of their licensed distribution locations will not need to obtain a new license for their existing licensed distribution locations. Entities that are currently registered with a Cigarette Distributor Account that also wish to distribute little or small cigars or any other tobacco products on or after April 1, 2017, will need to obtain a Tobacco Products Distributor Account and may apply using the BOE's online registration (<https://efile.boe.ca.gov/ereg/index.boe>). 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](http://www.boe.ca.gov), and select "New Registration" to begin. The BOE's "Information to Get Started" webpage at [www.boe.ca.gov/electsvr/ings.htm](http://www.boe.ca.gov/electsvr/ings.htm) contains a checklist of general information applicants may need for the registration process.

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**For additional information**

Additional information regarding the provisions of Proposition 56 is available online at <http://voterguide.sos.ca.gov/en/propositions/56/>. Distributors may also view the BOE's online "Cigarette and Tobacco Products Tax Guide" at [www.boe.ca.gov/industry/cigarettes\\_tobacco\\_products.html](http://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](http://www.boe.ca.gov) as it will be continuously updated. Distributors 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.