



ASSISTANT  
DIRECTOR

DEPARTMENT OF THE TREASURY  
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS  
WASHINGTON, DC 20226

DEC 10 1999

MESSAGE FROM THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

**TO: Manufacturers of Tobacco Products, Manufacturers of Cigarette Papers and Tubes, Export Warehouses, and Others Concerned:**

PURPOSE. This letter is to inform you of provisions of the Balanced Budget Act of 1997 (Public Law 105 - 33, Section 9302), effective January 1, 2000. The Act imposes an increase in the Federal excise tax rates for tobacco products and cigarette papers and tubes, a new tax on roll-your-own tobacco, a change in tax computation for cigarette papers and new tobacco importation requirements.

TAX INCREASE FOR TOBACCO PRODUCTS. The Balanced Budget Act of 1997 imposed an increase of the Federal excise tax rate on cigarettes, cigarette papers and tubes, and other tobacco products effective January 1, 2000. On or after January 1, 2000, all such products removed from bonded premises will be subject to the new tax imposed by the law. For your reference, the old and new tax rates are set forth in Exhibit 1.

Effect on bond coverage. Manufacturers and export warehouses who do not already have a maximum bond should re-evaluate their bond coverage. The increased tax rate may increase the liability that must be covered by a manufacturer's or exporter's bond. Proprietors should re-compute their bond coverage in accordance with applicable regulations, using the new higher tax rates. If present coverage is insufficient, proprietors should file a superseding bond before the tax increase takes effect on January 1, 2000.

Effect on electronic fund transfer tax payments. The increase in tax rates may place a taxpayer in the Electronic Funds Transfer (EFT) category for the first time. As a general rule, under 26 U.S.C. Section 5703(b)(3), all taxpayers that pay equal to or more than \$5,000,000 in tobacco products excise taxes during a calendar year are required to pay taxes by EFT for the **following** year. It is the taxpayer's responsibility to determine if EFT payment is necessary as a result of the year 2000 tax

payments and, if it is, to begin paying taxes by EFT in 2001. If you need additional information or instructions for EFT payments, contact the National Revenue Center or your local ATF office.

FLOOR STOCKS TAX ON CIGARETTES. As a transition to the new tax rates on cigarettes, the law imposes a floor stocks tax on cigarettes that are taxpaid, or tax determined, and held for sale on January 1, 2000. You should receive additional information on the requirements for the floor stocks tax in a separate mailing.

It would be appreciated if manufacturers would advise any wholesalers or retailers who may be unaware of the floor stocks tax obligation to contact us at the phone numbers listed below for the appropriate forms and instructions.

ROLL-YOUR-OWN TOBACCO. The law imposes a new excise tax on roll-your-own tobacco at the same rate as pipe tobacco. On or after January 1, 2000, producers of roll-your-own tobacco products will be required to pay excise tax at the rate of 95.67 cents per pound for all such products removed from bonded premises. The term "roll-your-own tobacco" means any tobacco that, because of its appearance, type, packaging, or labeling, is suited for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes.

Roll-your-own producers who do not already have a permit as a manufacturer of tobacco products will be required to obtain a permit, post a surety bond, and pay the Special Occupational Tax (SOT) as a manufacturer of tobacco products. Producers should submit an application to ATF before January 1, 2000. The SOT must be paid on or before January 1, 2000, but can be prorated for six months starting January 1, 2000. ATF Form 2093 (5200.3), Application for Permit under 26 U.S.C. Chapter 52, and the ATF Form 5630.5, SOT Registration and Return, can be obtained from the National Revenue Center.

Roll-your-own producers will be required to maintain and submit the same type of records and reports required for manufacturers of other tobacco products, as well as comply with other requirements set forth in 26 U.S.C. Chapter 52 and 27 C.F.R. Part 270.

CIGARETTE PAPERS. The tax on cigarette papers is no longer limited to sets or books containing more than 25

cigarette papers. Therefore, sets of 25 or less cigarette papers or single papers are also subject to the cigarette paper tax at the rate of 1.06 cents for each 50 or fractional part thereof, effective January 1, 2000.

IMPORTATION OF TOBACCO PRODUCTS. Effective January 1, 2000, a person must apply for a permit to continue or begin business as an importer of tobacco products. A separate mailing explaining the requirements was made to all known importers. If you import tobacco products and have not received a tobacco importer application, ATF Form 5230.4, contact ATF to obtain the form.

In addition new restrictions have been placed on the importation of previously exported tobacco products and cigarette papers and tubes. Under certain conditions only a tobacco products manufacturer or proprietor of an export warehouse may receive from Customs' custody previously exported tobacco products. Industry Circular 2000-1 explains more about this new provision.

POINTS OF CONTACT. Forms, applications, the regulations implementing the law, and additional information may be obtained from the ATF web page at [www.atf.treas.gov](http://www.atf.treas.gov) or from the National Revenue Center.

Please contact ATF if you have any questions. Contact the Revenue Division at 202-927-8220, the National Revenue Center at 513-684-7151 or 1-800-398-2282, or your local ATF Industry Operations Office.



Assistant Director  
(Alcohol and Tobacco)

Exhibit 1

NEW EXCISE TAX RATES FOR TOBACCO PRODUCTS EFFECTIVE JANUARY 1, 2000.

Tobacco Product	Old Rate	Amount of Increase	New Rate *
Small Cigar	\$1.125 per thousand	\$0.469 per thousand	\$1.594 per thousand
Large Cigars	12.75% of price not to exceed \$30 per thousand	5.313% of price	18.063% of price not to exceed \$42.50 per thousand
Small Cigarettes (Class A Cigarettes)	\$12.00 per thousand	<b>\$5.00 per thousand (Floor Stocks Tax)</b>	\$17.00 per thousand
Large Cigarettes	\$25.20 per thousand	\$10.5 per thousand (Floor Stocks Tax)	\$35.70 per thousand
Cigarette Papers	0.75 cents per 50 papers for each book or set containing more than 25 papers	0.31 cents per 50 papers (The increase for books or sets of 25 or less is 1.06 cents per 50 papers)	1.06 cents per 50 papers (The amount in a book or set does not matter)
Cigarette Tubes	1.5 cents per 50 tubes	0.63 cents per 50 tubes	2.13 cents per 50 tubes
Smokeless Snuff	36 cents per pound	15 cents per pound	51 cents per pound
Chewing Tobacco	12 cents per pound	5 cents per pound	17 cents per pound
Pipe Tobacco	67.5 cents per pound	28.17 cents per pound	95.67 cents per pound
Roll-Your-Own Tobacco	None	95.67 cents per pound	95.67 cents per pound

\* These rates are in effect from January 1, 2000 to December 31, 2001. The law calls for another increase in rates starting January 1, 2002.