

Illinois Department of Revenue
101 West Jefferson Street
Springfield, Illinois 62708

INFORMATIONAL BULLETIN FY86-20

TO: Licensed Cigarette Distributors

SUBJECT: Changes to Cigarette Tax Act

On October 1, 1985, several changes in the Illinois Cigarette Tax Act (and the Cigarette Use Tax Act) MAY become effective pursuant to Public Act 84-126, Senate Bill 730. Whether they become effective depends on whether the federal government reduces its cigarette excise tax - as it currently plans to do - on October 1.

If the U.S. government DOES reduce its tax, this is what will happen to the Illinois tax:

1. The state tax rate will increase by the amount of the federal tax decrease, up to 8¢ per package of 20 - for a total state tax of 20¢ per package of 20.
2. The discount rates allowed to distributors will increase to:
 - 1.75% of the first \$3 million paid per year; and
 - 1.50% of all purchases above \$3 million.
3. The credit period allowed to purchasers will increase on October 1 to 30 days (currently 21 days); and
4. The bond required of credit purchasers will increase to \$750,000 or 150% of the purchaser's average monthly tax, whichever is less.

These anticipated changes to the state law require preparation both on our part and on yours. To that end, here are some of the things that will be happening in the next couple of weeks.

We will notify you by September 20 if your bond will increase for October 1. Without the increased bond, we will not be able to allow credit purchases after October 1.

We will also send you (about September 23) a revised order-invoice on which you may order the new state cigarette stamps. The stamps will be available for purchase starting September 26, 1985 in Springfield and Chicago.

The increased discount rate will not become effective until October 1. If the new state tax rate does, in fact, become effective on October 1 and you purchased new cigarette stamps before that date, we will recalculate your discount on these purchases at the increased rate and send you a credit memorandum for the difference.

At the close of business on September 30, 1985, it will be necessary

for you to take a physical inventory of:

- Cigarettes on hand with "old" stamps; and
- Unaffixed "old" stamps.

You may after the inventory, apply the new stamps to packages which already bear the old stamp. You will then be entitled to a credit (on Form RC-16) for the value of the old stamps which appear on the "overstamped" packages. You will also be entitled to a credit (on a separate Form RC-16) for all the unaffixed old stamps, which should be returned directly to either our Springfield or Chicago offices.

We may be contacting you before September 30 to arrange for some of our employees to observe both the inventorying and the over stamping process at your place of business.

We want to emphasize that these changes to the state cigarette tax law are contingent upon the federal government's reducing its cigarette tax rate. The rate will be reduced automatically unless the government takes action to stop it before October 1.

We, therefore, will not know anything FOR SURE until October 1. For that reason, we recommend that you keep informed of the late developments as they are reported in trade publications, newspapers, and other reliable sources.

J. Thomas Johnson
Director of Revenue

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