

SB0850



100TH GENERAL ASSEMBLY

State of Illinois

2017 and 2018

SB0850

Introduced 2/7/2017, by Sen. Toi W. Hutchinson

SYNOPSIS AS INTRODUCED:

35 ILCS 130/3-3 new

Amends the Cigarette Tax Act. Requires the Department of Revenue to issue a request for proposal to acquire and use digital tax stamps. Provides that, upon implementation of the digital stamps, a stamp is considered affixed if 90% or more of the stamp is affixed to the individual package. Contains provisions concerning reimbursement of licensed distributors for costs associated with the initial purchase of a tax stamping machine, and provides a tax collection discount for licensed distributors.

LRB100 04299 HLH 14305 b

FISCAL NOTE ACT
MAY APPLY

A BILL FOR

1 AN ACT concerning revenue.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 5. The Cigarette Tax Act is amended by adding
5 Section 3-3 as follows:

6 (35 ILCS 130/3-3 new)

7 Sec. 3-3. Digital tax stamps.

8 (a) Within 180 days after the effective date of this
9 amendatory Act of the 100th General Assembly, the Department
10 shall issue a request for proposal to acquire and use digital
11 stamps that contain a unique nonrepeating code that can be read
12 by a device that identifies the taxed product and also contains
13 other security and enforcement features as determined by the
14 Department. The request for proposal shall include a provision
15 that requires the successful bidder on the proposal to share
16 digital stamp technology so that handheld devices, including,
17 but not limited to, smartphones, can be readily utilized in
18 furtherance of the implementation of the use of digital stamps,
19 and so that the technology and equipment used by licensed
20 distributors to affix the stamps to packages of cigarettes can
21 be supplied, as may be permitted by the Department, by the
22 successful bidder on the proposal or by any other provider. The
23 request for proposal shall also include a provision permitting

1 the Department to manage or restrict access rights to all or
2 part of the information contained within, or accessible from,
3 the stamps and a provision requiring the successful bidder on
4 the proposal to guarantee that the stamps will be designed and
5 manufactured to ensure that stamps can be affixed to individual
6 packages of cigarettes in accordance with the requirements of
7 this Act.

8 (b) Upon implementation of the digital stamps as provided
9 in this amendatory Act of the 100th General Assembly, a stamp
10 is considered affixed if 90% or more of the stamp is affixed to
11 the individual package.

12 (c) Beginning in the first calendar month following the
13 implementation of the use of digital stamps as provided in this
14 Section, and continuing for the immediately succeeding 17
15 months, licensed distributors are entitled to reimbursement of
16 direct costs actually incurred by the distributor, as
17 determined by the Department, for the initial purchase of
18 eligible equipment in an amount equal to 5.5% of the total net
19 purchase price of the eligible equipment necessary to affix the
20 digital stamp. The reimbursement provided under this
21 subsection shall also include any applicable use or occupation
22 taxes paid, and shipping and crating charges actually incurred,
23 by the distributor in connection with the purchase, but shall
24 exclude reimbursement for any other costs incurred by the
25 distributor that are not otherwise expressly provided for in
26 this Section, including, but not limited to, charges for

1 installation and ongoing maintenance related to eligible
2 equipment. A distributor may only receive reimbursement under
3 this subsection to the extent that the eligible equipment
4 purchased by the distributor does not exceed the total number
5 of the distributor's existing equipment, as certified by the
6 distributor on a form prescribed by the Department.

7 The total reimbursement available under this subsection
8 shall not exceed \$60,000 for all distributors combined.

9 (d) Beginning with the first calendar month following the
10 implementation of the use of digital stamps as provided in this
11 Section, a discount of 0.5% is allowed to each licensed
12 distributor until the licensed distributor is compensated in an
13 amount equal to the direct cost actually incurred by the
14 distributor for the purchase of upgrades to technology and
15 equipment, excluding the equipment reimbursed under subsection
16 (c) of this Section, that are necessary to affix the digital
17 stamp as determined by the Department.

18 Compensation under this subsection may also be claimed by a
19 distributor for the direct costs actually incurred by the
20 distributor, as determined by the Department and reflected in
21 the net purchase price, for the initial and one-time purchase
22 of case packers or similar machines or conveyors as follows:

23 (1) case packers or similar machines to be used
24 exclusively to repack cigarette cartons into case
25 boxes after digital stamps have been applied by
26 eligible equipment to the individual packages of

1 cigarettes contained within those cigarette cartons;
2 compensation under this paragraph (1) may only be
3 claimed by a distributor if the case packers or similar
4 machines are in addition to, and not a replacement for,
5 one or more case packers or similar machines used in
6 connection with cigarette stamping machines that do
7 not use digital stamps authorized under this Section;

8 (2) conveyors to be used exclusively for that
9 portion of a cigarette stamping line that is necessary
10 for and dedicated to cigarette stamping operations
11 using eligible equipment to affix digital stamps to
12 individual packages of cigarettes to be sold in this
13 State; compensation under this paragraph may be
14 claimed by a distributor only if the cigarette stamping
15 line served by the conveyors is in addition to one or
16 more distinct and existing cigarette stamping lines
17 using stamping machines that do not use the digital
18 stamps authorized under this Section, and that
19 compensation shall not exceed a total of 50% of the
20 amount reimbursed under subsection (c) for any
21 particular distributor; and

22 (3) compensation under paragraphs (1) and (2)
23 shall also include any applicable sales or use taxes
24 paid, and shipping and crating charges actually
25 incurred, by the distributor in connection with the
26 purchase, but shall exclude any other costs incurred by

1 the distributor not otherwise expressly provided for
2 in this subsection, including, but not limited to,
3 charges for installation and ongoing maintenance.

4 (e) As used in this Section:

5 "Eligible equipment" means a cigarette tax stamping
6 machine that meets all of the following conditions:

7 (1) it was purchased by a licensed distributor on or
8 after December 31, 2014;

9 (2) it enables the distributor to affix digital stamps
10 to individual packages of cigarettes in accordance with the
11 requirements of this Act; and

12 (3) it was purchased to be used for the primary purpose
13 of permitting the distributor to affix digital stamps to
14 individual packages of cigarettes to be sold in this State
15 following the implementation of the use of digital stamps
16 under this Section.

17 "Existing equipment" means a cigarette tax stamping
18 machine that meets all of the following conditions:

19 (1) it was owned by a licensed distributor as of
20 December 31, 2014; and

21 (2) it was a cigarette tax stamping machine used prior
22 to January 1, 2015 by the distributor to apply stamps using
23 stamp rolls of 30,000 stamps.

24 "Qualified Equipment" means equipment that was placed in
25 service by a distributor during the first 8 months of digital
26 stamp implementation that includes conveyors and additional

1 associated electrical lines and compressed air lines in
2 connection with the implementation of a digital stamping line
3 approved by the Department. "Qualified equipment" does not
4 include the cost of installation of a conveyor.

5 "Smartphone" means a device that combines a cell phone with
6 a handheld computer and is capable of internet access, which
7 allows a user, in conjunction with an encrypted digital tax
8 stamp, to open a public portal.