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SPECIAL NOTICE

2013 Legislative Changes Requiring Cigarette Stampers and Non-stamping Distributors to Collect Sales Tax on Cigarettes

Purpose: This Special Notice provides guidance on the application and implementation of a new law requiring cigarette stampers and non-stamping distributors to collect the Connecticut sales tax of 6.35% on all sales of cigarettes to licensed dealers beginning on July 1, 2013.

Effective Date: July 1, 2013.

Statutory Authority: Conn. Gen. Stat. §12-430, as amended by 2013 Conn. Pub. Acts 184, §82.

Definitions: For the purpose of Connecticut sales and use taxes,

Stamped package of cigarettes means a package of cigarettes to which a Connecticut cigarette tax stamp has been affixed;

Stamper means a person who, under Chapter 214 of the Connecticut General Statutes, may lawfully purchase unstamped packages of cigarettes and who, before those packages are transferred out of the person's possession, is required to affix Connecticut cigarette tax stamps to those packages;

Non-stamping distributor means a distributor that is licensed under Chapter 214, other than a stamper; and

Licensed dealer means a dealer licensed under Chapter 214.

Chapter 214 means the chapter of the Connecticut General Statutes that imposes the Connecticut cigarette tax.

Stamper's Obligation to Collect Sales Tax:

Stamper selling to licensed dealers: When a stamper sells stamped packages of cigarettes to a licensed dealer, the stamper is required to collect the sales tax from the licensed dealer. The amount of the tax required to be collected by the stamper must be separately stated on the invoice to the licensed dealer. A stamper may not accept a resale certificate from a licensed dealer.

Stamper selling to non-stamping distributors:

When a stamper sells stamped packages of cigarettes to a non-stamping distributor, the stamper is required to collect the sales tax from the non-stamping distributor, unless the non-stamping distributor issues a resale certificate to the stamper.

Sales to Chain Operators: Certain non-stamping distributors (chain operators) who buy cigarettes for the retail stores they operate or franchise but do not resell cigarettes to these stores must pay the sales tax on those purchases. Those chain operators who do resell cigarettes to the retail stores they operate or franchise are allowed to issue a resale certificate and collect the sales tax on these sales to those dealers.

Licensed Dealer's Obligations: A licensed dealer will report the gross receipts from sales of cigarettes and will take a deduction on **Form OS-114, Sales and Use Tax Return**, for the purchase amount of cigarettes that were taxed by the stamper or non-stamping distributor. The deduction for the purchase amount of cigarettes that were taxed will be taken on the sales and use tax return reporting period when the purchase is made. See **Form O-88, Instructions for Sales and Use Tax Return**, for further details.

Example: In July 2013, a dealer purchases cigarettes from a stamper or non-stamping distributor for \$1,000.00 and pays sales tax of \$63.50 on the purchase. The dealer must report the gross receipts from his sales of cigarettes on line 1 and may claim a deduction of \$1,000 on line 83 of **Form OS-114**.

Returned Cigarettes:

Connecticut imposes a sales tax on sales of tangible personal property (including cigarettes) unless otherwise exempt. Excluded from the statutory definition of sales price and gross receipts subject to tax are “any portion of the amount charged for property returned by purchasers, which upon rescission of the contract of sale is refunded either in cash or credit, provided the property is returned within ninety days from the date of purchase.” Conn. Gen. Stat. §12-407(a)(8)(B)(ii) and §12-407(a)(9)(B)(ii). This statute governs in all circumstances where a customer returns an item (including cigarettes) for a refund or credit.

Based on the above, if a dealer returns cigarettes to a stamper or non-stamping distributor and does so within 90 days of purchase, the stamper or non-stamping distributor will be eligible to receive a refund of sales tax it remitted to the State on said returned cigarettes. To claim this refund, the stamper or non-stamping distributor must reduce the amount of gross receipts it reports on the sales tax return it files for the period in which such cigarettes were returned. Specifically, the stamper or non-stamping distributor is authorized to deduct from line 52 of said return an amount equal to the gross receipts of said returned cigarettes.

When a dealer returns cigarettes under the circumstances described above, the dealer must also make a modification to its sales tax return for the period in which such cigarettes were returned. Specifically, the dealer is authorized to deduct from line 83 of said return an amount equal to the gross receipts of said returned cigarettes. Please note, however, if the amount of the modification for the returned cigarettes exceeds the amount of the deduction you otherwise report, you must report zero and claim any remaining balance on each successive return until such modification is fully utilized.

Worthless Accounts: Stampers and non-stamping distributors are eligible to claim credit for the sales tax paid for worthless accounts or “bad

debts.” A bad debt is an account receivable that is determined to be worthless and is actually written off as uncollectible for federal income tax purposes.

For additional information, refer to **PS 2001(1)**, *Procedure for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable*.

New Sales Tax Return Filing Requirements:

Stampers and non-stamping distributors must report and remit the sales tax on their sales of cigarettes on a monthly basis. Any stampers or non-stamping distributor currently filing an annual sales and use tax return must file a sales tax return on or before July 31, 2013, for the period January 1, 2013 through June 30, 2013. Beginning with the July 2013 tax period, stampers and non-stamping distributors must file a sales tax return and remit the tax monthly.

Effect on Other Documents: None affected.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by the Department of Revenue Services (DRS).

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the *Make Payment Only* option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer's withholding tax, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select *Sign up for e-alerts* under *How Do I?* on the gold navigation bar.

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Cigarettes
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