

1 (2) AUDITS.—Beginning not later than July 1,
 2 2011, the Secretary of Health and Human Services
 3 shall conduct audits to determine if hospitals violate
 4 the requirements referred to in paragraph (1).

5 **TITLE VII—REVENUE**
 6 **PROVISIONS**

7 **SEC. 701. INCREASE IN EXCISE TAX RATE ON TOBACCO**
 8 **PRODUCTS.**

9 (a) CIGARS.—

10 (1) SMALL CIGARS.—Paragraph (1) of section
 11 5701(a) of the Internal Revenue Code of 1986 is
 12 amended to read as follows:

13 “(1) SMALL CIGARS.—On cigars, weighing not
 14 more than 3 pounds per thousand, the amount de-
 15 termined in accordance with the following table:

“Cigars Removed During Calendar Year—	Tax Rate Per Thou- sand—
2009 or 2010	\$12.50
2011 or 2012	\$25.00
2013 or 2014	\$37.50
2015 or thereafter	\$50.00.”.

16 (2) LARGE CIGARS.—Paragraph (2) of section
 17 5701(a) of such Code is amended—

18 (A) by striking “20.719 percent (18.063
 19 percent on cigars removed during 2000 or
 20 2001)” and inserting “52.4 percent”, and

1 (B) by striking “\$48.75 per thousand
2 (\$42.50 per thousand on cigars removed during
3 2000 or 2001)” and inserting “40 cents per
4 cigar”.

5 (b) CIGARETTES.—Section 5701(b) of such Code is
6 amended—

7 (1) by striking “\$19.50 per thousand (\$17 per
8 thousand on cigarettes removed during 2000 or
9 2001)” in paragraph (1) and inserting “\$50.00 per
10 thousand”, and

11 (2) by striking “\$40.95 per thousand (\$35.70
12 per thousand on cigarettes removed during 2000 or
13 2001)” in paragraph (2) and inserting “\$105.00 per
14 thousand”.

15 (c) CIGARETTE PAPERS.—Section 5701(c) of such
16 Code is amended by striking “1.22 cents (1.06 cents on
17 cigarette papers removed during 2000 or 2001)” and in-
18 serting “3.13 cents”.

19 (d) CIGARETTE TUBES.—Section 5701(d) of such
20 Code is amended by striking “2.44 cents (2.13 cents on
21 cigarette tubes removed during 2000 or 2001)” and in-
22 serting “6.26 cents”.

23 (e) SMOKELESS TOBACCO.—Section 5701(e) of such
24 Code is amended—

1 (1) by striking “58.5 cents (51 cents on snuff
2 removed during 2000 or 2001)” in paragraph (1)
3 and inserting “\$1.50”, and

4 (2) by striking “19.5 cents (17 cents on chew-
5 ing tobacco removed during 2000 or 2001)” in para-
6 graph (2) and inserting “50 cents”.

7 (f) PIPE TOBACCO.—Section 5701(f) of such Code is
8 amended by striking “\$1.0969 cents (95.67 cents on pipe
9 tobacco removed during 2000 or 2001)” and inserting
10 “\$2.8126”.

11 (g) ROLL-YOUR-OWN TOBACCO.—Section 5701(g) of
12 such Code is amended by striking “\$1.0969 cents (95.67
13 cents on roll-your-own tobacco removed during 2000 or
14 2001)” and inserting “\$24.62”.

15 (h) FLOOR STOCKS TAXES.—

16 (1) IMPOSITION OF TAX.—On tobacco products
17 (other than cigars described in section 5701(a)(2) of
18 the Internal Revenue Code of 1986) and cigarette
19 papers and tubes manufactured in or imported into
20 the United States which are removed before any tax
21 increase date and held on such date for sale by any
22 person, there is hereby imposed a tax in an amount
23 equal to the excess of—

1 (A) the tax which would be imposed under
2 section 5701 of such Code on the article if the
3 article had been removed on such date, over

4 (B) the prior tax (if any) imposed under
5 section 5701 of such Code on such article.

6 (2) CREDIT AGAINST TAX.—Each person shall
7 be allowed as a credit against the taxes imposed by
8 paragraph (1) an amount equal to \$500. Such credit
9 shall not exceed the amount of taxes imposed by
10 paragraph (1) on such date, for which such person
11 is liable.

12 (3) LIABILITY FOR TAX AND METHOD OF PAY-
13 MENT.—

14 (A) LIABILITY FOR TAX.—A person hold-
15 ing tobacco products, cigarette papers, or ciga-
16 rette tubes on any tax increase date, to which
17 any tax imposed by paragraph (1) applies shall
18 be liable for such tax.

19 (B) METHOD OF PAYMENT.—The tax im-
20 posed by paragraph (1) shall be paid in such
21 manner as the Secretary shall prescribe by reg-
22 ulations.

23 (C) TIME FOR PAYMENT.—

1 (i) IN GENERAL.—The tax imposed by
2 paragraph (1) shall be paid on or before
3 August 1, 2009.

4 (ii) SPECIAL RULE FOR SMALL CI-
5 GARS.—In the case of small cigars, the tax
6 imposed by paragraph (1) on or after Jan-
7 uary 1, 2011, shall be paid on or before
8 April 1 following any tax increase date.

9 (4) ARTICLES IN FOREIGN TRADE ZONES.—
10 Notwithstanding the Act of June 18, 1934 (com-
11 monly known as the Foreign Trade Zone Act, 48
12 Stat. 998, 19 U.S.C. 81a et seq.) or any other provi-
13 sion of law, any article which is located in a foreign
14 trade zone on any tax increase date shall be subject
15 to the tax imposed by paragraph (1) if—

16 (A) internal revenue taxes have been deter-
17 mined, or customs duties liquidated, with re-
18 spect to such article before such date pursuant
19 to a request made under the 1st proviso of sec-
20 tion 3(a) of such Act, or

21 (B) such article is held on such date under
22 the supervision of an officer of the United
23 States Customs and Border Protection of the
24 Department of Homeland Security pursuant to
25 the 2d proviso of such section 3(a).

1 (5) DEFINITIONS.—For purposes of this sub-
2 section—

3 (A) IN GENERAL.—Any term used in this
4 subsection which is also used in section 5702 of
5 the Internal Revenue Code of 1986 shall have
6 the same meaning as such term has in such
7 section.

8 (B) TAX INCREASE DATE.—The term “tax
9 increase date” means April 1, 2009, January 1,
10 2011, January 1, 2013, and January 1, 2015.

11 (C) SECRETARY.—The term “Secretary”
12 means the Secretary of the Treasury or the
13 Secretary’s delegate.

14 (6) CONTROLLED GROUPS.—Rules similar to
15 the rules of section 5061(e)(3) of such Code shall
16 apply for purposes of this subsection.

17 (7) OTHER LAWS APPLICABLE.—All provisions
18 of law, including penalties, applicable with respect to
19 the taxes imposed by section 5701 of such Code
20 shall, insofar as applicable and not inconsistent with
21 the provisions of this subsection, apply to the floor
22 stocks taxes imposed by paragraph (1), to the same
23 extent as if such taxes were imposed by such section
24 5701. The Secretary may treat any person who bore
25 the ultimate burden of the tax imposed by para-

1 graph (1) as the person to whom a credit or refund
2 under such provisions may be allowed or made.

3 (i) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to articles removed (as defined in
5 section 5702(j) of the Internal Revenue Code of 1986)
6 after March 31, 2009.

7 **SEC. 702. ADMINISTRATIVE IMPROVEMENTS.**

8 (a) PERMIT, INVENTORIES, REPORTS, AND RECORDS
9 REQUIREMENTS FOR MANUFACTURERS AND IMPORTERS
10 OF PROCESSED TOBACCO.—

11 (1) PERMIT.—

12 (A) APPLICATION.—Section 5712 of the
13 Internal Revenue Code of 1986 is amended by
14 inserting “or processed tobacco” after “tobacco
15 products”.

16 (B) ISSUANCE.—Section 5713(a) of such
17 Code is amended by inserting “or processed to-
18 bacco” after “tobacco products”.

19 (2) INVENTORIES, REPORTS, AND PACKAGES.—

20 (A) INVENTORIES.—Section 5721 of such
21 Code is amended by inserting “, processed to-
22 bacco,” after “tobacco products”.

23 (B) REPORTS.—Section 5722 of such Code
24 is amended by inserting “, processed tobacco,”
25 after “tobacco products”.

1 (C) PACKAGES, MARKS, LABELS, AND NO-
2 TICES.—Section 5723 of such Code is amended
3 by inserting “, processed tobacco,” after “to-
4 bacco products” each place it appears.

5 (3) RECORDS.—Section 5741 of such Code is
6 amended by inserting “, processed tobacco,” after
7 “tobacco products”.

8 (4) MANUFACTURER OF PROCESSED TO-
9 BACCO.—Section 5702 of such Code is amended by
10 adding at the end the following new subsection:

11 “(p) MANUFACTURER OF PROCESSED TOBACCO.—

12 “(1) IN GENERAL.—The term ‘manufacturer of
13 processed tobacco’ means any person who processes
14 any tobacco other than tobacco products.

15 “(2) PROCESSED TOBACCO.—The processing of
16 tobacco shall not include the farming or growing of
17 tobacco or the handling of tobacco solely for sale,
18 shipment, or delivery to a manufacturer of tobacco
19 products or processed tobacco.”.

20 (5) CONFORMING AMENDMENT.—Sections
21 5702(j), 5702(k), and 5704(h) of such Code is
22 amended by inserting “, or any processed tobacco,”
23 after “nontaxpaid tobacco products or cigarette pa-
24 pers or tubes”.

1 (6) EFFECTIVE DATE.—The amendments made
2 by this subsection shall take effect on April 1, 2009.

3 (b) BASIS FOR DENIAL, SUSPENSION, OR REVOCA-
4 TION OF PERMITS.—

5 (1) DENIAL.—Paragraph (3) of section 5712 of
6 such Code is amended to read as follows:

7 “(3) such person (including, in the case of a
8 corporation, any officer, director, or principal stock-
9 holder and, in the case of a partnership, a part-
10 ner)—

11 “(A) is, by reason of his business experi-
12 ence, financial standing, or trade connections or
13 by reason of previous or current legal pro-
14 ceedings involving a felony violation of any
15 other provision of Federal criminal law relating
16 to tobacco products, processed tobacco, ciga-
17 rette paper, or cigarette tubes, not likely to
18 maintain operations in compliance with this
19 chapter,

20 “(B) has been convicted of a felony viola-
21 tion of any provision of Federal or State crimi-
22 nal law relating to tobacco products, processed
23 tobacco, cigarette paper, or cigarette tubes, or

1 “(C) has failed to disclose any material in-
2 formation required or made any material false
3 statement in the application therefor.”.

4 (2) SUSPENSION OR REVOCATION.—Subsection
5 (b) of section 5713 of such Code is amended to read
6 as follows:

7 “(b) SUSPENSION OR REVOCATION.—

8 “(1) SHOW CAUSE HEARING.—If the Secretary
9 has reason to believe that any person holding a per-
10 mit—

11 “(A) has not in good faith complied with
12 this chapter, or with any other provision of this
13 title involving intent to defraud,

14 “(B) has violated the conditions of such
15 permit,

16 “(C) has failed to disclose any material in-
17 formation required or made any material false
18 statement in the application for such permit,

19 “(D) has failed to maintain his premises in
20 such manner as to protect the revenue,

21 “(E) is, by reason of previous or current
22 legal proceedings involving a felony violation of
23 any other provision of Federal criminal law re-
24 lating to tobacco products, processed tobacco,
25 cigarette paper, or cigarette tubes, not likely to

1 maintain operations in compliance with this
2 chapter, or

3 “(F) has been convicted of a felony viola-
4 tion of any provision of Federal or State crimi-
5 nal law relating to tobacco products, processed
6 tobacco, cigarette paper, or cigarette tubes,
7 the Secretary shall issue an order, stating the facts
8 charged, citing such person to show cause why his
9 permit should not be suspended or revoked.

10 “(2) ACTION FOLLOWING HEARING.—If, after
11 hearing, the Secretary finds that such person has
12 not shown cause why his permit should not be sus-
13 pended or revoked, such permit shall be suspended
14 for such period as the Secretary deems proper or
15 shall be revoked.”.

16 (3) EFFECTIVE DATE.—The amendments made
17 by this subsection shall take effect on the date of the
18 enactment of this Act.

19 (c) APPLICATION OF INTERNAL REVENUE CODE
20 STATUTE OF LIMITATIONS FOR ALCOHOL AND TOBACCO
21 EXCISE TAXES.—

22 (1) IN GENERAL.—Section 514(a) of the Tariff
23 Act of 1930 (19 U.S.C. 1514(a)) is amended by
24 striking “and section 520 (relating to refunds)” and
25 inserting “section 520 (relating to refunds), and sec-

1 tion 6501 of the Internal Revenue Code of 1986
2 (but only with respect to taxes imposed under chap-
3 ters 51 and 52 of such Code)”.

4 (2) EFFECTIVE DATE.—The amendment made
5 by this subsection shall apply to articles imported
6 after the date of the enactment of this Act.

7 (d) EXPANSION OF DEFINITION OF ROLL-YOUR-OWN
8 TOBACCO.—

9 (1) IN GENERAL.—Section 5702(o) of the In-
10 ternal Revenue Code of 1986 is amended by insert-
11 ing “or cigars, or for use as wrappers thereof” be-
12 fore the period at the end.

13 (2) EFFECTIVE DATE.—The amendment made
14 by this subsection shall apply to articles removed (as
15 defined in section 5702(j) of the Internal Revenue
16 Code of 1986) after March 31, 2009.

17 (e) TIME OF TAX FOR UNLAWFULLY MANUFAC-
18 TURED TOBACCO PRODUCTS.—

19 (1) IN GENERAL.—Section 5703(b)(2) of such
20 Code is amended by adding at the end the following
21 new subparagraph:

22 “(F) SPECIAL RULE FOR UNLAWFULLY
23 MANUFACTURED TOBACCO PRODUCTS.—In the
24 case of any tobacco products, cigarette paper,
25 or cigarette tubes manufactured in the United

1 States at any place other than the premises of
2 a manufacturer of tobacco products, cigarette
3 paper, or cigarette tubes that has filed the bond
4 and obtained the permit required under this
5 chapter, tax shall be due and payable imme-
6 diately upon manufacture.”.

7 (2) EFFECTIVE DATE.—The amendment made
8 by this subsection shall take effect on the date of the
9 enactment of this Act.

10 (f) DISCLOSURE.—

11 (1) IN GENERAL.—Paragraph (1) of section
12 6103(o) of such Code is amended by designating the
13 text as subparagraph (A), moving such text 2 ems
14 to the right, striking “Returns” and inserting “(A)
15 IN GENERAL.—Returns”, and by inserting after sub-
16 paragraph (A) (as so redesignated) the following
17 new subparagraph:

18 “(B) USE IN CERTAIN PROCEEDINGS.—Re-
19 turns and return information disclosed to a
20 Federal agency under subparagraph (A) may be
21 used in an action or proceeding (or in prepara-
22 tion for such action or proceeding) brought
23 under section 625 of the American Jobs Cre-
24 ation Act of 2004 for the collection of any un-

1 paid assessment or penalty arising under such
2 Act.”.

3 (2) CONFORMING AMENDMENT.—Section
4 6103(p)(4) of such Code is amended by striking
5 “(o)(1)” both places it appears and inserting
6 “(o)(1)(A)”.

7 (3) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply on or after the date
9 of the enactment of this Act.

10 (g) TRANSITIONAL RULE.—Any person who—

11 (1) on April 1 is engaged in business as a man-
12 ufacturer of processed tobacco or as an importer of
13 processed tobacco, and

14 (2) before the end of the 90-day period begin-
15 ning on such date, submits an application under
16 subchapter B of chapter 52 of such Code to engage
17 in such business, may, notwithstanding such sub-
18 chapter B, continue to engage in such business
19 pending final action on such application. Pending
20 such final action, all provisions of such chapter 52
21 shall apply to such applicant in the same manner
22 and to the same extent as if such applicant were a
23 holder of a permit under such chapter 52 to engage
24 in such business.

1 **SEC. 703. TREASURY STUDY CONCERNING MAGNITUDE OF**
2 **TOBACCO SMUGGLING IN THE UNITED**
3 **STATES.**

4 Not later than one year after the date of the enact-
5 ment of this Act, the Secretary of the Treasury shall con-
6 duct a study concerning the magnitude of tobacco smug-
7 gling in the United States and submit to Congress rec-
8 ommendations for the most effective steps to reduce to-
9 bacco smuggling. Such study shall also include a review
10 of the loss of Federal tax receipts due to illicit tobacco
11 trade in the United States and the role of imported to-
12 bacco products in the illicit tobacco trade in the United
13 States.

14 **SEC. 704. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
15 **TAXES.**

16 The percentage under subparagraph (C) of section
17 401(1) of the Tax Increase Prevention and Reconciliation
18 Act of 2005 in effect on the date of the enactment of this
19 Act is increased by 1 percentage point.