

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version:	HB 304
Fiscal Note Number:	1
(H) Publish Date:	2/8/2016

Identifier: DOR-TAX-02-04-16  
Title: ELECTRNC TAX RETURNS;TOBACCO & E-CIGS  
TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Governor

Department: Department of Revenue  
Appropriation: Taxation and Treasury  
Allocation: Tax Division  
OMB Component Number: 2476

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Fund Source (Operating Only)

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Positions

Full-time							
Part-time							
Temporary							

<b>Change in Revenues</b>		29,100.0	28,400.0	27,750.0	27,250.0	26,850.0	26,400.0
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**Estimated SUPPLEMENTAL (FY2016) cost:** 50.0 (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2017) cost:** 0.0 (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? no  
If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version:

Not applicable, initial version.

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Agency: Deputy Commissioner, DOR

Phone: (907)269-6736  
Date: 02/04/2016 12:00 PM  
Date: 02/04/16

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

## Analysis

**Bill Analysis**

Alaska first imposed an excise tax on cigarettes and other tobacco products in 1949. Cigarettes have always been taxed separately from other tobacco products in Alaska. Currently, there are two separate taxes on cigarettes—the base tax of 38 mills per cigarette and the additional tax of 62 mills per cigarette. Revenue from the base rate is deposited in the School Fund. Revenue from the additional tax is initially deposited into the General Fund, with 8.9% of that revenue deposited into the Tobacco Use Education and Cessation Subfund.

This bill would increase the additional tax on cigarettes from 62 mills to 112 mills (a tax increase of 5 cents per cigarette). This bill also increases the tax on tobacco products other than cigarettes from 75% of the wholesale price to 100%. It also creates a tax on electronic cigarettes and taxes them in the same method as tobacco products other than cigarettes. Electronic cigarettes aren't currently taxed because they don't fit existing statutory definitions.

The last major change is to require electronic tax filing. With the implementation of the Tax Revenue Management System, DOR has a much more advanced, integrated tax database with a strong online portal and robust reporting functions. Paper tax filings require a laborious process of scanning and manual data entry, and the department is working to transition away from this system. To this end, each of the several revenue bills being introduced contains language in the general revenue statutes to require electronic submission unless the taxpayer does not have the technological capability to do so.

**Revenue Impact**

DOR estimates that increasing the additional tax on cigarettes would generate \$24.1 million in additional revenue in FY17. Of that amount 8.9% or about \$2.1 million would be deposited into the Tobacco Use Education and Cessation Fund. DOR estimates that increasing the tax on other tobacco products to 100% of the wholesale price would generate an additional \$5 million in revenue in FY17. Unlike the additional cigarette tax, 100% of the revenue from other tobacco products is deposited into the General Fund. The estimates make no adjustment for changes in demand due to higher prices, or for stockpiling in advance of the tax increase; these demand changes are expected to be material. We also currently do not have a revenue estimate for adding "e-cigarettes" to the other tobacco products tax. We have no data on e-cigarette sales in Alaska on which to base an estimate.

The breakout of our revenue impact estimation by tax type and fund is as follows:

Revenue Impact by Tax Type and Fund						
Tax Type/Fund	FY17	FY18	FY19	FY20	FY21	FY22
OTP-GF	5,000	5,200	5,400	5,600	5,800	6,000
Cigarette-GF	22,000	21,100	20,350	19,750	19,150	18,600
Cigarette-TECF	2,100	2,100	2,000	1,900	1,900	1,800
<b>Total</b>	<b>29,100</b>	<b>28,400</b>	<b>27,750</b>	<b>27,250</b>	<b>26,850</b>	<b>26,400</b>

**Implementation Cost**

This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms.

The supplemental fiscal note figure of \$50.0 in FY16 is to cover the costs of having our contractor update the two systems. We do not anticipate any continuing costs or additional staff needs. After the implementation of the changes, this legislation would not cause any additional administrative burden on the Tax Division.