

Fiscal Note

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State of Alaska
2020 Legislative Session

Bill Version: SB 182
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB182-DOR-TAX-02-21-2020
Title: AGE FOR NICOTINE/E-CIG; TAX E-CIG.
Sponsor: STEVENS
Requester: (S) Labor & Commerce

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)

	FY2021 Appropriation Requested	Included in Governor's FY2021 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2021	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)	250.0		840.0	920.0	1,000.0	1,080.0	1,150.0
1251 Non-UGF (Other)	(230.0)		(660.0)	(640.0)	(620.0)	(600.0)	(570.0)
Total	20.0	0.0	180.0	280.0	380.0	480.0	580.0

Estimated SUPPLEMENTAL (FY2020) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2021) cost: 0.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - 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If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version/comments:

Not Applicable. Initial version.

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Agency: Office of Management and Budget

Phone: (907)269-6736
Date: 02/21/2020
Date: 02/21/20

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2020 LEGISLATIVE SESSION

BILL NO. SB 182

Analysis

Background

This bill would make two changes to Alaska's tobacco taxes with an effective date of January 1, 2021. First, this bill would implement an excise tax on e-cigarettes, which are currently untaxed. Second, this bill would raise the minimum age for buying or possessing nicotine-containing products in Alaska from 19 to 21.

This bill would add electronic smoking products to the existing excise tax on tobacco products other than cigarettes. An electronic smoking product is defined in the bill and includes any component, solution, vapor product, or other related product that is manufactured and sold for use in an electronic cigarette or similar device. Electronic smoking products also include disposable integrated units or refillable systems with a power source. The tax rate for tobacco products would remain unchanged at 75% of the wholesale value but would now extend to electronic cigarettes and associated products.

This bill would raise the minimum age to purchase or possess cigarettes, vapor products, and other tobacco products ("OTP") (e.g., chew, cigars, and snuff) from 19 to 21. This change will result in consistency with a recent change in federal law raising the minimum age to 21. This change will also result in consistency with the minimum age to purchase or consume marijuana and alcohol in Alaska.

Revenue Impact

DOR estimates that raising the minimum age for nicotine to 21 would reduce tobacco tax revenues by about 3.8%. This estimate is derived by combining tobacco use and population estimates to infer the share of tobacco consumption attributable to 19- and 20-year-olds. The revenue estimate assumes that raising the legal age would reduce revenue by this 3.8%. Applying this rate to the Fall 2019 forecast for cigarette and OTP revenue generates an estimated revenue decrease of \$0.74 million in FY 2021 and \$2.18 million in FY 2022, declining to \$2.05 million in FY 2026. The FY 2021 estimate represents a half-year of revenue impact, adjusted by an assumption that impacted consumers will stockpile tobacco products before the new age limit takes effect.

DOR estimates that taxing electronic cigarettes in the same method as other tobacco products, at 75% of the wholesale price, would generate an additional \$0.76 million in revenue in FY 2021 and \$2.36 million in FY2022, rising with inflation to \$2.63 million in FY 2026. This estimate is derived from analyzing data gathered by other jurisdictions with similar taxes, including the Matanuska-Susitna Borough and other states. These amounts include the impact of raising the minimum age to 21. The FY 2021 estimate represents a half-year of revenue, adjusted by an assumption that distributors will stockpile inventory before the tax takes effect.

Combining the two elements of the bill, the net fiscal impact is estimated to be \$0.02 million in FY 2021 and \$0.18 million in FY 2022, increasing to \$0.58 million in FY 2026. New revenue from the electronic cigarette tax would go entirely to the Unrestricted General Fund, while reduced revenue from the age increase would impact the General Fund as well as the Tobacco Education and Cessation Fund and School Fund which receive a portion of cigarette tax revenues. Thus, the revenue estimate shows a net increase to Unrestricted General Fund revenues and a net decrease in funds for the two Designated General Fund components.

Due to technical limitations of the Fiscal Note system, revenue impacts to both the the Tobacco Education and Cessation Fund and School Fund are combined in fund source 1251 Non-UGF (Other) in this fiscal note. DOR estimates that revenues to the Tobacco Education and Cessation Fund will be reduced by \$0.03 million in FY 2021 and \$0.08 in FY 2022, trending down to \$0.07 in FY 2026. DOR estimates that revenues to the School Fund will be reduced by \$0.20 million in FY 2021 and \$0.58 in FY 2022, trending down to \$0.50 in FY 2026.

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Revenue estimates are uncertain for several reasons. First, the electronic cigarette market is rapidly evolving and the division does not have great data about statewide consumption. Second, it is difficult to estimate the impacts of these changes on underage and black-market consumption, or online purchases which are not taxed. While the overall electronic cigarette market is expected to continue growing, DOR expects that the tax burden imposed by this bill on brick-and-mortar retail sales will drive many sales online, where they would not be subject to the tax.

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. This fiscal note has no additional funding needs but that is conditional on pending TRMS budget requests. If the operating budget increment for FY 2021 for the Tax Division is approved, the division would be fully funded for the ongoing operations and maintenance of TRMS, and would not need funding for this request. If the operating budget increment is not approved, then the division would need \$50,000 capital funding to make the programming changes required by this bill.

The division does not anticipate any continuing costs or additional staff needs. The division estimates hundreds of new taxpayers—the specialty shops that bring vapor products into the state for sale—which will be an additional administrative burden on the Division, but one the division believes it can absorb.