

Fiscal Note

State of Alaska
2020 Legislative Session

Bill Version: HB 94
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB094-DOR-TAX-12-27-2019
Title: ELECTRONIC SMOKING PRODUCTS EXCISE
TAX
Sponsor: HANNAN
Requester: (H) 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)			1,000.0	2,500.0	2,500.0	2,600.0	2,700.0
Total	0.0	0.0	1,000.0	2,500.0	2,500.0	2,600.0	2,700.0

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If yes, by what date are the regulations to be adopted, amended or repealed?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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Phone: (907)269-6736
Date: 12/27/2019
Date: 01/14/20

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2020 LEGISLATIVE SESSION

BILL NO. HB 94

Analysis

Background

Alaska first imposed an excise tax on cigarettes and other tobacco products in 1949. The excise tax on tobacco products other than cigarettes was repealed in 1955. In 1988 the legislature enacted the excise tax on tobacco products other than cigarettes in its current form but at a rate of 25% of the wholesale price. The last major change to the excise tax on tobacco products was in 1999 when the rate was increased to its current value of 75% of the wholesale price. All the revenue from this tax is deposited into the General Fund.

This bill would make the vapor product or solution used in electronic cigarettes subject to the excise tax on tobacco products. The tax rate for tobacco products would remain unchanged at 75% of the wholesale value. Vapor products used in electronic cigarettes aren't currently taxed in Alaska. This bill would levy the tax when the product is brought into the state for sale or when the product is manufactured in Alaska. The person bringing a vapor product into the state for sale or manufacturing the product in the state would be required to be licensed by the Tax Division. There is an application fee of \$50 for an excise tax on tobacco products license.

Revenue Impact

DOR assumes that dates in the legislation will be updated by one year. DOR estimates that taxing the vapor products used in electronic cigarettes in the same method as other tobacco products, at 75% of the wholesale price, would generate an additional \$1 million in revenue in FY22 and \$2.5 million in FY23, rising with inflation to \$2.7 million in FY26. 100% of this revenue would be deposited into the General Fund. The reason for the lower revenue estimate in FY22 is twofold—(1) revenue would only be collected for half of the fiscal year because the bill would take effect half way through FY22, and (2) DOR assumes that distributors will stockpile inventory before the tax takes effect.

DOR's research suggests that most vapor products brought into the state are currently purchased by the final consumer over the internet. Shipments to the final consumer would not be taxable under this bill because the excise tax on tobacco products is only levied on products brought into the state for sale or manufactured in the state. This fiscal analysis does not include vapor products purchased online by the final consumer. This estimate uses data gathered by Matanuska-Susitna Borough on their Other Tobacco Product tax revenues attributable to e-cigarette sales, and scales those figures to fit Alaska's population.

Widespread industry analyst consensus predicting strong growth in the US e-cigarette retail market during FY2019-FY2025 leads DOR to believe that there will be corresponding growth in e-cigarette retail purchases by Alaskans during the forecast period. Expected growth in retail e-cigarette purchasing by Alaskans is not reflected in this revenue forecast, because the Department expects that the tax burden imposed by this bill on brick-and-mortar retail sales will drive the majority of e-cigarette retail 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. DOR would also need to update the current tax return forms. If the operating budget increment for FY 2021 for the Tax Division is approved, DOR 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 DOR would need \$50,000 capital funding to make the programming changes required by this bill.

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