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Pulling Together to Build Our Future

Cigarette and Tobacco Products Taxes

SB133

Presentation to the Senate Labor & Commerce Committee

February 16, 2016

Tobacco and Electronic Cigarettes Tax

“An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the taxes on cigarettes and tobacco products; taxing electronic smoking devices; and providing for an effective date.”

Tobacco Tax History

- Began in 1949
 - Cigarettes and other tobacco products have always been taxed separately in Alaska
- Tax on other tobacco products (OTP) repealed in 1955
 - Reinstated in 1988 at 25% of wholesale price

Tobacco Tax History (Continued)

- Last major change in 1999: OTP tax raised to 75% of wholesale price
 - All revenue from this tax goes to General Fund
- Two separate taxes on cigarettes:
 - “Base” tax: \$0.038 per cigarette, to School Fund
 - “Additional” tax: \$0.062 per cigarette
 - 8.9% of this goes to Tobacco Use Education and Cessation Fund
 - Remainder goes to General Fund
 - Total of both taxes is \$0.10 per cigarette

Tobacco Tax Proposal

- Increases “additional tax” by 5 cents, from \$0.062 to \$0.112 per cigarette
 - No change to “base” tax
 - Total tax rises to \$0.15 per cigarette (\$3 for per pack of 20, an increase of \$1 per pack)
- Increases tax on other tobacco products (OTP) from 75% to 100% of wholesale price

Tobacco Tax Proposal (Continued)

- Adds electronic cigarettes to the tax on other tobacco products
- Clarifies definition of “wholesale price” of a tobacco product or electronic smoking device
- Requires electronic filing
 - Provides exemption process

Relative Tobacco Tax Rate

- Alaska's tobacco taxes are higher than U.S. average¹
 - Cigarettes: 11th out of 50
 - Other tobacco products: 8th-highest percentage, but some states don't use wholesale price
- This bill would give Alaska the highest OTP tax and 5th-highest cigarette tax

¹As of January 1, 2015

Revenue Impact

- Dept. of Revenue estimates increasing cigarette tax will raise an additional \$24 million per year
 - 8.9% (about \$2 million) to Tobacco Use Education and Cessation Fund
 - \$22 million to General Fund
- Other tobacco tax increase: \$5 million per year
 - All goes to General Fund
- Total revenue impact: \$29 million per year

Revenue Impact (Continued)

- Estimates based on 2015 fall revenue forecast
- Do not account for changes in tobacco demand or stockpiling to avoid tax increase
 - This could have a substantial effect in FY 2017
- Dept. of Revenue lacks data to estimate revenue from “e-cigarette” sales.
 - Revenue from this change is indeterminate

Implementation Cost

- Dept. of Revenue must update:
 - Tax Revenue Management System (TRMS)
 - Revenue Online (ROL) which allows a taxpayer to file a return and apply for a tax license online
 - Tax return forms
- One-time implementation cost of \$50,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

Closing the Budget Gap

FY16 Budget	(Millions) \$ 5,200
	Savings in FY 2017
AK Permanent Fund Protection Act (annual draw)	\$ 3,200
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	\$ 4,185
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<u>Spending Reductions (estimated amounts)</u>	
Continue Cuts (through FY19)	\$ 200
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 44)</u>
	\$ 556

Closing the Budget Gap (Continued)

<u>New Revenue Components (estimated)</u>	Savings in FY 2017 (Millions)
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
Tourism	\$ 15
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Individual Alaskans (Income Tax)	<u>\$ 200</u>
	\$ 457
Budget + Spending Reductions + New Revenue	\$ 5,198

Impacts of Tobacco Tax Proposal

- More expensive to buy tobacco
- Slight decrease in consumption due to higher prices
- Stockpiling of cigarettes before tax increase

Sectional Analysis

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Conforming language to add electronic smoking devices to the current statute allowing the department to share information with municipalities.
- Sec. 4.** Conforming language to reference the new definition of “electronic smoking device” in Section 13.

Sectional Analysis (Continued)

Sec. 5. Increases the “additional tax levy” on each cigarette from 62 mills to 112 mills.

Sec. 6. Increases the tax on tobacco products other than cigarettes from 75% of the wholesale price to 100% of the wholesale price. Adds electronic smoking devices to what is taxed.

Sec. 7. Conforming language to add electronic smoking devices to an existing statute referencing federal tax exemptions.

Sec. 8. Conforming language to add electronic smoking devices to the license requirement.

Sec. 9. Conforming language to add electronic smoking devices to the monthly tax return. Also adds new language to require electronic filing of the return.

Sectional Analysis (Continued)

- Sec. 10.** Conforming language to add electronic smoking devices to the procedures for issuing tax credits and refunds.
- Sec. 11.** Conforming language to add electronic smoking devices to the requirement to keep complete and accurate records to support the tax return.
- Sec. 12.** Adds language to clarify that a cessation product, tobacco dependence product or modified risk tobacco product are excluded from the definition of a tobacco product for purposes of taxation.
- Sec. 13.** Clarifies the definition of "wholesale price" of a tobacco product or electronic smoking device as the gross invoice price including all federal excise taxes, less any trade discounts or other reductions.
- Sec. 14.** Adds the definition of "electronic smoking device".

Sectional Analysis (Continued)

Sec. 15. Adds that the Act is applicable to tobacco products sold on or after the effective date of the Act and applies to the first monthly return submitted after the first full month after the effective date.

Sec. 16. Allows the Department of Revenue to adopt regulations necessary to implement the changes made by this Act but not before the effective date.

Sec. 17. Section 16 of this Act takes effect immediately under AS 01.10.070(c).

Sec. 18. Except as provided in Sec. 16-17, effective date of July 1, 2016.

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Thank You!

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