

Fiscal Note

State of Alaska
2023 Legislative Session

Bill Version: HB 119
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB119-DOR-TAX-03-21-23
Title: MARIJUANA TAX
Sponsor: RLS BY REQUEST
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)

	FY2024 Appropriation Requested	Included in Governor's FY2024 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2024	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Personal Services							
Travel							5.0
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	5.0

Fund Source (Operating Only)

1004 Gen Fund (UGF)							5.0
Total	0.0	0.0	0.0	0.0	0.0	0.0	5.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)	(6,000.0)		(8,400.0)	(8,800.0)	(9,200.0)	(9,500.0)	(9,800.0)
1252 DGF Temp (DGF)	(7,000.0)		(9,900.0)	(10,400.0)	(10,800.0)	(11,200.0)	(17,800.0)
Total	(13,000.0)	0.0	(18,300.0)	(19,200.0)	(20,000.0)	(20,700.0)	(27,600.0)

Estimated SUPPLEMENTAL (FY2023) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2024) cost: 1,000.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? Yes
(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? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/23

Why this fiscal note differs from previous version/comments:

This version changes the assumption that the current rate differentials would be maintained for the lower tax rates on immature or abnormal bud and trim. After meeting with the Task Force on Recreational Marijuana we are now assuming that all parts of the plant would be taxed at the new rate of \$12.50 per ounce. Clones would still be taxed at the lower rate set in regulation of \$1 per plant.

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Agency: Department of Revenue

Phone: (907)727-8802
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Date: 04/07/23

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2023 LEGISLATIVE SESSION

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Analysis

Background Tax Division

Under current statutes, Alaska levies a tax on marijuana sold or transferred from a marijuana cultivation facility to a retail marijuana store or marijuana product manufacturing facility. The tax rate is \$50 per ounce. The tax was created through voter initiative in 2014 and the first sales were in FY2017. The voter initiative granted the Department of Revenue (Department) authority to set a rate lower than \$50 per ounce for “certain parts of the marijuana plant.” The Department adopted a regulation that set the tax as \$50 per ounce for bud, \$25 per ounce for immature bud, \$15 per ounce for trim, and \$1 per plant for clones. For purposes of estimating a revenue impact for this fiscal note, we assume that all parts of the plant would be taxed at the new rate of \$12.50 per ounce except that clones would still be taxed at \$1 per plant as set in regulation.

This bill would initially change the current tax rate in statute from \$50 per ounce to \$12.50 per ounce. No effective date for this change is identified in the bill, so we assume an effective date of October 1, 2023, for the initial rate change. On July 1, 2028, this bill would change the tax from its current form to a retail sales tax of 3% of the sales price of marijuana products at a retail store. The bill would also change how the funds are allocated and the Department estimates reflect those designations in this fiscal note.

Revenue Impact

The Department estimates that changing the rate from \$50 per ounce to \$12.50 per ounce would reduce current revenue by \$18.3 million in the first full fiscal year after implementation—FY2025.

The Department projects that going from the \$12.50 per ounce wholesale transfer rate to a sales tax at a rate of 3% in FY2029 would result in a further decrease of \$27.6 million in FY2029.

These estimates assume no inflation for fiscal note purposes.

This bill would also change the allocation of tax revenue. Currently the allocation of revenue is split between three funds:

Recidivism fund	50%
Marijuana education and treatment fund	25%
Unrestricted general fund	25%

This bill would change the allocation to deposit 100% of the revenue into the marijuana education and treatment fund. Money could be appropriated from that fund for three different purposes of not more than 33% to each of the following: (1) the Department of Health for the comprehensive marijuana use education and treatment program, (2) the Department of Commerce, Community, and Economic Development to support administrative tasks relating to the cultivation, manufacture, and sale of marijuana and marijuana products in the state, and (3) the general fund. This fiscal note reflects the change of 100% of estimated marijuana tax revenue being redirected to the marijuana education and treatment fund.

DGF Temp (DGF) is the combination of the revenue to the recidivism fund decreasing, and the revenue to the marijuana education and treatment fund increasing.

CHANGE IN REVENUES		FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
1246	RcdvsmFund (DGF)	(12,000.0)	(16,900.0)	(17,700.0)	(18,400.0)	(19,000.0)	(19,600.0)
1254	MET Fund (DGF)	5,000.0	7,000.0	7,300.0	7,600.0	7,800.0	1,800.0
1004	Gen Fund (UGF)	(6,000.0)	(8,400.0)	(8,800.0)	(9,200.0)	(9,500.0)	(9,800.0)
TOTAL CHANGE IN REVENUES		(13,000.0)	(18,300.0)	(19,200.0)	(20,000.0)	(20,700.0)	(27,600.0)

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Implementation Cost

This bill would initially require the Department to make only minor changes to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. Resources required to implement the initial change of the tax rate would include staff time to update tax forms, TRMS, ROL, and other miscellaneous costs when applicable. These initial costs would be absorbed by the Tax Division using existing resources.

The change in FY2029 to a sales tax would require more significant changes and costs. This bill would create a new sales tax at the retail level in FY2029 which would need to be stood up. Standing up a sales tax would require developing a new module in TRMS. Since the old tax would be going away at the same time, we would use existing staff to manage the new program for licensing, return processing, auditing, and customer service functions. The staff would have an enforcement function requiring travel which is included as a cost here.

The Department will need to engage FAST Enterprises, our TRMS contractor, to develop a sales tax module, including a license function for a new taxpayer base, into TRMS and integrate the module with our existing imaging, accounting, and collections modules. The \$1,000.0 in FY2024 capital costs is an estimate for the needed contract with FAST Enterprises to develop the new tax module.