

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 429
 (H) Publish Date: 2/15/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Tobacco Tax Stamp BRU Revenue Operations
 Component Tax Division
 Sponsor Rules Committee
 Requester Governor Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	109.5	109.5	109.5	109.5	109.5	109.5
Travel	5.0	5.0	5.0	5.0	5.0	5.0
Contractual	41.0	38.0	38.0	38.0	38.0	38.0
Supplies	2.0	2.0	2.0	2.0	2.0	2.0
Equipment	21.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	178.5	154.5	154.5	154.5	154.5	154.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	178.5	154.5	154.5	154.5	154.5	154.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	178.5	154.5	154.5	154.5	154.5	154.5

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

** There will be a decrease in state revenues due to the higher commission paid to licensees (in the form of a discount on the state cigarette tax remittance) to compensate them for the cost of affixing the stamp to cigarette packages, collecting the tax and remitting it to the department.

However, there will be an indeterminate revenue gain to the state from this legislation, likely equal to or greater than the lost revenue.

The department anticipates that a cigarette stamp program would increase compliance with the state's cigarette tax laws, and therefore would result in higher tax revenues to the state. Unfortunately, it is not possible to predict how much additional revenue might be generated for the state from the tax stamp program. (See second page for additional analysis)

Prepared by: Johanna Bales Phone 269-6628
 Division: Tax Division Date/Time 2/9/02 1:46 PM
 Approved by: Larry Persily, Deputy Commissioner Date 02/09/2002
 Agency: Department of Revenue

Department of Revenue

Tobacco Tax Stamp - Bill Analysis (January 29, 2002)

Assumptions: The fiscal effect assumes that 40 million to 50 million packs of cigarettes will be sold each year.

Program Summary: The program will consist of the annual purchase of tax stamps from a stamp manufacturer. The stamps will be secured in fireproof safes by the Department of Revenue.

Positions: The department expects that it will need 2.0 additional positions to handle the purchase, sale, administration and enforcement of the new tax stamp program. Enforcement includes conducting audits and other investigations to ensure that stamps are properly affixed to cigarettes. These positions will also be responsible for the seizure and security of unstamped product and its ultimate destruction. For this type of work, the department expects it will need a full-time Revenue Auditor III (Range 18) at an expected annual cost of \$62,100 and a full-time Tax Technician III (Range 14) at an expected annual cost of \$47,400.

Other Operating Expenditures: In the first year, approximately \$10,000 will be needed for two fireproof safes; \$11,000 for two computers, software and work stations; \$5,000 for travel expenses; \$2,000 for supplies; \$3,000 for advertising costs and IT charges; and \$38,000 for stamp design and printing. Printing of stamps in all future years will cost approximately \$35,000; with supplies at \$2,000; travel at \$5,000; and IT and phone charges at \$3,000.

Revenue: The department is unable to estimate the amount of additional revenue that may be generated as a result of the tax stamp. Other states that have recently adopted a cigarette tax stamp program have found that the stamps significantly increased their tax revenues. Michigan reported an 8.7 percent increase in cigarette tax revenues in the first year of its program, 1999. Initial reports from Hawaii indicate an amazing 25 percent increase in tax collections. Although these results from other states are encouraging, we do not have a reliable basis to predict the size of the effect of cigarette tax stamps on revenue in Alaska. However, for every 1% increase in cigarette tax collections, Alaska revenue would increase by approximately \$400,000. An increase of 1-1/4 percent in tax collections would be enough to cover the Department of Revenue costs of this legislation.

Commission (discount to licensees): All other states, except Hawaii, allow licensees to purchase stamps at a discount. The current national average discount is 3.05%. This bill allows for a discount of 2% on the first 1 million stamps purchased by each licensee and 1% on all purchases over 1 million stamps. The current tobacco statute allows a commission of 0.4% to licensees as compensation for collecting the tax and remitting it to the department. Based on Fiscal Year 2001 tax filings, we estimate that the increase in the discount as a result of this bill would be approximately \$359,000 annually.

Cost Increase to Licensees: Licensees will incur increased costs to place stamps on cigarette packages. It is estimated that licensees could incur costs between \$2,000 and \$30,000 annually, after taking into consideration the discount, to comply with this bill.

Alaska Department of Revenue
 Cigarette Tax Stamp
 Fiscal Note
 Estimated Cost to DOR for Stamps

Prepared by: J. Bales
 Feb. 9, 2002

Currently, there is only one vendor in the U.S. that manufactures the heat-applied cigarette tax stamps. That manufacturer is Meyercord. The Department received the following estimate for the design and purchase of cigarette tax stamps from Tom Letizia of Meyercord. These costs are for stamps with the most up-to-date security features. Stamps with less security features can be ordered for about \$6,000 less per year, but are easier to counterfeit.

	1st Year	2nd Year and thereafter
Stamp design fee	\$ 1,500	\$ -
Cylinder cost (extra security features)	\$ 1,500	\$ -
Annual cost to print and deliver 40,000,000 to 50,000,000 stamps for all cigarette packages	<u>\$ 35,000</u>	<u>\$ 35,000</u>
Total Stamp Cost	\$ 38,000	\$ 35,000
Program Costs		
Additional Personnel		
1 Revenue Auditor III	\$ 62,100	\$ 62,100
1 Tax Technician III	\$ 47,400	\$ 47,400
Travel expenses	\$ 5,000	\$ 5,000
Supplies	\$ 2,000	\$ 2,000
Advertising, phone, and IT charges	<u>\$ 3,000</u>	<u>\$ 3,000</u>
	\$ 119,500	\$ 119,500
Equipment		
Computers, workstations & software for new personnel	\$ 11,000	\$ -
2 safes to secure stamps	<u>\$ 10,000</u>	<u>\$ -</u>
Total Program Costs	\$ 21,000	\$ -
Total DOR Costs	<u>\$ 178,500</u>	<u>\$ 154,500</u>

Alaska Department of Revenue
Cigarette Tax Stamp
Fiscal Note
Effect of Discount Allowed Licensees

Prepared by:

J. Bales
Feb. 9, 2002

Alaska currently has 61 cigarette licensees. Of the 61, 49 are distinct companies that would be entitled to a 2% discount on the first 1,000,000 cigarettes sold. The following estimated decrease in cigarette revenue due to the increase in the discount is based on FY 2001 cigarette tax filings. The calculation shows what the discount would have been if the new discount rates had been in effect.

Effect on Revenue	Total Taxable Cigs	Total Taxable Cig Packages	Total Discount
Cigs eligible for 2% disc	226,753,180	11,337,659	\$ 226,753
Cigs eligible for 1% disc	591,124,800	29,556,240	\$ 295,562
Total discount based on 2001 data	817,877,980	40,893,899	\$ 522,316
Less 0.4 percent commission currently allowed			\$ (163,576)
Effect on allowing 2% / 1% discount on stamp purchases			\$ 358,740

NOTE: Other states give discounts between .3% up to 10% of the value of the stamp. Hawaii actually charges licensees a 1.7% fee to purchase the stamps. The average discount allowed by all states is 3.05%.

Alaska Department of Revenue
 Cigarette Tax Stamp
 Fiscal Note
 Estimated Cost to Licensees to Stamp

Prepared by: J. Bales
 Feb. 9, 2002

Stamp Equipment	Monthly Cost ⁽¹⁾	Annual Cost ⁽¹⁾		
Automatic Stamp Machine	\$ 413.92	\$ 4,967.04		
Semi-Automatic Stamp Machine	\$ 326.56	\$ 3,918.72		
Manual Stamp Machine	\$ 131.00	\$ 1,572.00		
 Personnel needed to run equipment 1 full-time for all equipment types (larger licensees may need 2 or more depending upon volume)	 \$ 1,733.33	 \$ 20,800.00	 (Estimated using 2080 hours @ \$10/hour)	
 Estimated Annual Cost ⁽²⁾	 Small Licensee	 Medium Licensee	 Large Licensee	
Automatic Stamp Machine			\$ 14,901.12	
Semi-Automatic Stamp Machine		\$ 11,756.16		
Manual Stamp Machine	\$ 1,572.00			
Personnel costs	\$ 20,800.00	\$ 62,400.00	\$ 124,800.00	
Total estimated annual costs	22,372.00	74,156.16	139,701.12	
 Stamp Discount Allowed	 Small Licensee	 Medium Licensee	 Large Licensee	
Number of stamps purchased annually	\$ 1,000,000.00	\$ 5,000,000.00	\$ 10,000,000.00	
2% on first 1,000,000	\$ 20,000.00	\$ 20,000.00	\$ 20,000.00	
1% on all stamps over 1,000,000	\$ -	\$ 40,000.00	\$ 90,000.00	
Total Discount Allowed	\$ 20,000.00	\$ 60,000.00	\$ 110,000.00	
 Total estimated actual costs incurred by licensees to stamp cigarettes	 \$ 2,372.00	 \$ 14,156.16	 \$ 29,701.12	

⁽¹⁾2001 estimates received from Meyercord, a cigarette tax stamp manufacturer.

⁽²⁾On average, medium and large Alaska cigarette licensees have three distinct geographical locations from where stamping might occur: Anchorage, Fairbanks and Juneau. Estimate is based on three stamping locations, with one individual needed for medium licensees at each location and two individuals needed for large licensees at each location.