

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSSB168(L&C)  
 (S) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Cigarette Sales / Distribution BRU: Revenue Operations  
 Component: Tax Division  
 Sponsor: Senate Labor and Commerce  
 Requester: Senate Finance Committee Component Number: 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	172.7	172.7	172.7	172.7	172.7	172.7
Travel	7.0	7.0	7.0	7.0	7.0	7.0
Contractual	43.5	39.0	39.0	39.0	39.0	39.0
Supplies	2.0	2.0	2.0	2.0	2.0	2.0
Equipment	26.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>251.7</b>	<b>220.7</b>	<b>220.7</b>	<b>220.7</b>	<b>220.7</b>	<b>220.7</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	**	**	**	**	**	**
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	251.7	220.7	220.7	220.7	220.7	220.7
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>251.7</b>	<b>220.7</b>	<b>220.7</b>	<b>220.7</b>	<b>220.7</b>	<b>220.7</b>

Estimate of any current year (FY2002) cost: 0.0

**POSITIONS**

Full-time	3	3	3	3	3	3
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

\*\* There will be a decrease in revenues to the state due to the higher commission paid to licensees (as a discount on cigarette taxes) to compensate them for the cost of affixing the stamp to cigarette packages, collecting the tax and remitting it to the department. The department estimates this tax revenue decrease could be \$251,000 a year (see Page 2). However, there will be a revenue gain to the state from this legislation, likely equal to or greater than the lost revenue, because of the tax enforcement benefits. The net result could likely be an increase in tobacco tax revenues.

The department anticipates that a cigarette stamp program will increase compliance with the state's cigarette tax laws, and therefore 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 4/25/03 10:30 AM  
 Approved by: Larry Persily, Deputy Commissioner Date 4/25/2003  
 Agency: Department of Revenue

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**Department of Revenue**

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**Assumptions:** This fiscal note assumes that 40 million to 50 million packs of cigarettes will be sold each year. This is consistent with annual sales in recent years.

**Effect of Legislation:** The program will consist of the annual purchase of tax stamps from a stamp manufacturer and the subsequent sale of those stamps by the state to cigarette licensees. The program will also include enforcement of the stamping requirements, as well as a ban on shipping cigarettes to certain persons in the state and prohibiting cigarette wholesalers and retailers from selling cigarettes below cost. The law would allow individuals and businesses to bring civil action in court to settle disputes over the unfair cigarette sales provision in this legislation.

**Positions:** The department expects that it will need three additional positions to handle the purchase, sale, administration and enforcement of the new tax stamp program and cigarette shipping restrictions. Enforcement includes conducting audits and other investigations to ensure that stamps are properly affixed to cigarettes, that cigarettes are not improperly shipped into or within the state, and that wholesalers and retailers do not sell cigarettes below cost. 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 \$62,500, an Investigator III (Range 18) at an expected annual cost of \$62,500, and a full-time Tax Technician III (Range 14) at an expected annual cost of \$47,700.

**Other Operating Expenditures:** In the first year, approximately \$10,000 will be needed for two fireproof safes; \$16,500 for three computers, software and work stations; \$7,000 for travel expenses; \$2,000 for supplies; \$3,000 for advertising costs and IT charges; and \$40,500 for stamp design and printing. Printing of stamps in all future years will cost approximately \$36,000; with supplies at \$2,000; travel at \$7,000; 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 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 taxes in the first year of its program in 1999. The most current reports from Hawaii indicate an amazing 50 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 just 1.25% in tax collections would be enough to cover the Department of Revenue's costs of this legislation, including the additional discount to licensees described below.

**Commission (discount to licensees):** All other states, except Hawaii, allow licensees to purchase stamps at a discount. The current national average discount is approximately 3%. This bill allows for a discount of 3% on the first \$1 million in stamps purchased by each licensee and 2% on the second \$1 million in stamps purchased by each licensee. There is no discount on purchases in excess of \$2 million in stamp purchases. The current tobacco statute allows a commission of 0.4% to licensees as compensation for collecting the tax and remitting it to the department. This commission would be replaced by the stamp discount. Based on FY 2002 tax filings, we estimate that the inclusion of a stamp discount and removal of the commission as a result of this bill would decrease revenues by approximately \$251,000 annually.

**Cost Increase to Licensees:** Licensees will incur increased costs to place stamps on cigarette packages, and it is possible that those costs could be in excess of the compensation given to licensees by the discount on their purchase of tax stamps. Depending on whether a licensee leases or purchases a tax stamp machine, and depending on whether it is a manual or an automatic machine, and depending on the licensee's volume of sales, the Department estimates the net cost of compliance at approximately one penny per pack of cigarettes.