

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSSB 168(FIN) am
 (H) Publish _____

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: House 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	297.7	297.7	297.7	297.7	297.7	297.7
Travel	15.0	15.0	15.0	15.0	15.0	15.0
Contractual	57.5	53.0	53.0	53.0	53.0	53.0
Supplies	5.0	5.0	5.0	5.0	5.0	5.0
Equipment	26.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	401.7	370.7	370.7	370.7	370.7	370.7

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	1,740.0	3,480.0	3,480.0	3,480.0	3,480.0	3,480.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	401.7	370.7	370.7	370.7	370.7	370.7
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	401.7	370.7	370.7	370.7	370.7	370.7

Estimate of any current year (FY2002) cost: 0.0

POSITIONS

Full-time	5	5	5	5	5	5
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would require that all packages of cigarettes sold in Alaska carry a state tobacco tax stamp on the package, verifying that the state tax has been paid. Alaska is one of only four states in the nation without a tobacco tax stamp program. The new program would take effect Jan. 1, 2004.

The department anticipates that a cigarette stamp program -- along with strong enforcement efforts funded by this fiscal note -- will result in increased compliance with the state's cigarette tax laws and therefore higher tax revenues to the state. The department estimates the new revenue at almost \$3.5 million per full fiscal year.

There will be a small 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 packages, collecting the tax and remitting it to the department.

(See second page for additional analysis)

Prepared by: Johanna Bales Phone 269-6628
 Division: Tax Division Date/Time 5/16/2003 7 p.m.
 Approved by: Larry Persily, Deputy Commissioner Date 5/16/2003
 Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office

Department of Revenue - FN#3
CSSB 168(Fin) am - Bill Analysis (May 15, 2003)

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 so-called minimum pricing provision in this legislation.

Positions: The department expects that it will need five additional positions to handle the purchase, sale, administration and aggressive enforcement of the tax stamp program and cigarette shipping restrictions to prevent the importation and sale of untaxed cigarettes in Alaska. 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 (also a provision of this legislation). 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), three Investigator IIIs, and a full-time Tax Technician III.

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: 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% increase in cigarette taxes in the first year of its program in 1999. The most current reports from Hawaii indicate an amazing 50% increase in tax collections after the state hired almost a dozen legal staffers to prosecute more than 100 felonies as part of its large-scale enforcement effort. If we assume that Alaska sees even a similar revenue increase as Michigan, at 8.7%, when applied to Alaska's FY2002 cigarette tax revenue of \$40 million, Alaska would realize \$3.48 million a year in additional revenue. The 8.7% estimate is not unreasonable, when measured against the 13% drop in cigarette consumption that was predicted when Alaska raised its tax rate to \$1 per pack in 1997 compared to the more than 20% drop in taxable sales since then. The 8.7% estimate represents the difference between the expected drop in taxable sales six years ago and the actual decline since then.

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 1 cent to 1.3 cents per pack of cigarettes.