

**ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE**

June 22, 2004

2:55 p.m.

MEMBERS PRESENT

Senator Con Bunde, Chair
Senator Ralph Seekins, Vice Chair
Senator Gary Stevens
Senator Bettye Davis
Senator Hollis French

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 1001

"An Act relating to taxes on cigarettes and tobacco products, to tax stamps on cigarettes, to forfeiture of cigarettes and of property used in the manufacture, transportation, possession, or sale of unstamped cigarettes, to accounting for and use of part of the proceeds of the additional cigarette tax, and to licenses and licensees under the Cigarette Tax Act; relating to unfair cigarette sales; and providing for an effective date."

MOVED SB 1001 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB1001

SHORT TITLE: TOBACCO TAX; LICENSING; PENALTIES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

WITNESS REGISTER

Ms. Joanna Bales, Program Manager
Cigarette and Tobacco Products Excise Tax Division
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Commented on SB 1001.

Commissioner Joel Gilbertson
Department of Health &

Social Services
PO Box 110601
Juneau, AK 99801-0601

POSITION STATEMENT: Commented on SB 1001.

ACTION NARRATIVE

TAPE 04-43, SIDE A

^#SB1001

SB1001-TOBACCO TAX; LICENSING; PENALTIES

CHAIR CON BUNDE called the Senate Labor and Commerce Standing Committee meeting to order at 2:55 p.m. All members were present. The first order of business to come before the committee was SB 1001.

MS. JOANNA BALES, Program Manager, Cigarette and Tobacco Products Excise Tax Division, Department of Revenue (DOR), identified the major changes in the bill. First, it outlines the intent to provide funding to the tobacco control programs at minimum levels recommended by the U.S. Department of Health and Human Services - approximately \$4 million each year.

CHAIR BUNDE clarified that the money goes to state agencies that work with tobacco cessation, not the non-profits to pay their staff.

MS. BALES agreed and added that the money would go to Department of Health and Social Services (DHSS). A person is allowed to import two cartons of cigarettes per month without incurring the tax, what the federal government allows people to import duty-free. The cigarettes cannot be transported through the mail and must be for personal use.

SB 1001 changes the threshold from 1,000 cigarettes to 5,000 cigarettes for a class C felony in the cigarette shipping restriction law. The reason is that the threshold for a class C felony theft is \$500 and the tax due on 5,000 cigarettes would be \$500.

Another provision adds a section saying that the State of Alaska can collect cigarette taxes from out-of-state sellers to the fullest extent allowed under the constitution. This language gives the state some leeway when an out-of-state seller is selling into the state. The other tobacco products (OTP) tax,

which is levied on individuals who bring in other tobacco products for personal consumption remains in this version.

CHAIR BUNDE related that this section pertained mostly to cigars.

MS. BALES added that manufacturers are now making machine-made cigars that meet the definition of a cigar, but are being advertised as a substitute for cigarettes.

SENATOR RALPH SEEKINS asked what the difference would be for a pack of cigarettes and a pack of cigars.

MS. BALES answered that the mini-cigar called Prime Time is being sold in Alaska and can be bought on the Internet for \$18 per carton. If a person brought that into the state, the tax would be \$18 for a total of \$36. A carton of cigarettes would run from \$42 - \$70 per carton. Without this provision, one would only pay \$18 for a carton of cigars.

SENATOR SEEKINS asked why the tax wasn't paid on the weight of the product.

MS. BALES replied that some states have done that and found that is more convoluted to administer.

SENATOR GARY STEVENS asked if there were any tax exemptions.

MS. BALES replied that the state has no authority to levy a tax on military installations, Indian reservations or on Indian Country. There are two such locations in Alaska - the Metlakatla Smoke Shop and the Klawock Smoke Shop. She emphasized that these exemptions were strictly for personal consumption.

MS. BALES said that the bill also clarifies a forfeiture of property provision that would only come into play when the crime committed was a felony, not a misdemeanor.

CHAIR BUNDE summarized that this bill increases the tax to a full dollar the day that it's effective and has a floor stock tax to prevent stock piling and taxes other tobacco products.

SENATOR STEVENS wanted to know how the additional monies going to cessation programs were going to be used.

MS. BALES replied that the \$4 million tax is in addition to the \$4 million to \$5 million that is received each year from the

master settlement agreement. The commissioner of the Division of Health and Social Services would address how the funds are used.

COMMISSIONER JOEL GILLBERTSON, Department of Health and Social Services (DHSS), explained that adding \$4 million would augment existing funds coming from the master settlement agreement. His department provides a variety of services with the tobacco control program dollars for cessation and intervention. Competitive grants are awarded to different organizations like the Tobacco Control Alliance, preventive ads are placed on radio and T.V. and a private toll-free quit line is operated for cessation services. Funds come to the department first and are disbursed through grants and contracts.

CHAIR BUNDE asked if there was a mechanism in place that could absorb the \$4 million tax increase effectively.

COMMISSIONER GILBERTSON said that an orderly ramp-up is needed in program services.

SENATOR STEVENS asked what major organizations his department would provide grants to.

COMMISSIONER GILBERTSON replied to organizations for cessations and education, the quit-line, advertising efforts, and possible new programs. Some funds are used in-house for things like epidemiological surveys, data collection and general services.

CHAIR BUNDE asked if municipalities could apply for and receive the competitive grants.

COMMISSIONER GILBERTSON replied yes.

SENATOR SEEKINS moved to pass SB 1001 from committee with individual recommendations and attached fiscal notes. Senators Davis, French, Seekins, Gary Stevens and Chair Bunde voted yea; and SB 1001 moved from committee.

#

There being no further business to come before the committee, Chair Bunde adjourned the meeting at 3:15 p.m.