

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
 Bill Version: CSHB 260(JUD)  
 (H) Publish Date: 4/15/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Taxes on cigarettes and tobacco RDU Taxation and Treasury  
products Component Tax  
 Sponsor House Finance Committee  
 Requester House Finance Committee Component No. 2476

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

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	53.7	53.7	53.7	53.7	53.7	53.7
Travel						
Contractual	4.3	4.3	4.3	4.3	4.3	4.3
Supplies						
Equipment	8.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>66.0</b>	<b>58.0</b>	<b>58.0</b>	<b>58.0</b>	<b>58.0</b>	<b>58.0</b>

CAPITAL EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011

CHANGE IN REVENUES ( )	7,100.0	8,100.0	2,250.0	2,250.0	2,250.0	2,250.0

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	66.0	58.0	58.0	58.0	58.0	58.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>66.0</b>	<b>58.0</b>	<b>58.0</b>	<b>58.0</b>	<b>58.0</b>	<b>58.0</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

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

**Bill Language:** This bill will change the effective date for cigarette tax increases passed in June 2004 by SB 1001. SB 1001 increased Alaska's cigarette excise tax to \$1.60 per pack of 20 cigarettes on January 1, 2005 and provided for additional cigarette tax increases of 20 cents per pack of 20 cigarettes on July 1, 2006 and July 1, 2007. This bill will accelerate the last two increases so that both will take effect on January 1, 2006. Therefore, on January 1, 2006, Alaska's cigarette excise tax would be \$2.00 per pack of twenty cigarettes. This bill will also increase the other tobacco products (OTP) tax from 75% to 100% of the wholesale cost and require individuals who purchase OTP through the mail or over the Internet to obtain a license with the Department of Revenue and pay the applicable OTP tax on those purchases. This bill also includes a section requiring a two-thirds majority vote in each house for the tax increases to take effect.

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 Division Tax Division Date/Time 4/13/05 12:48 PM  
 Approved by: Jerry Burnett Date 4/13/2005  
 Agency Department of Revenue

## FISCAL NOTE #3

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. CSHB 260(JUD)

### **ANALYSIS CONTINUATION**

**Bill Analysis (cont.):** This bill also makes changes to the criminal statutes regarding underage possession and purchase of cigarettes and limits the amount of a bond that cigarette manufacturers must post when filing an appeal of a judgment from a lower court. These provisions are not administered by the Department of Revenue. Therefore, this fiscal note does not address any additional operating costs of these proposed changes.

**Program Summary:** DOR will license individuals to purchase cigarettes through the mail and over the Internet and process tax returns filed by those individuals. DOR will also work with other states to determine the amount of other tobacco products purchased by individuals in Alaska. Currently, Alaska has information agreements with other states which allows Alaska to obtain information about tobacco products shipped into Alaska. DOR will gather this information, summarize it, determine the amount of other tobacco products purchased by an individual, and prepare assessments for unpaid taxes. DOR will also conduct other compliance activities to ensure that all taxes owed on other tobacco products is paid.

**Positions:** DOR expects that it will need 1 additional position, 1 Tax Technician II, to perform the additional functions required by this bill. DOR expects the total cost of this additional position to be \$53,700 each year.

**Other Operating Expenditures:** (1) Contractual - Contractual costs include leasing office space and providing phone service for 1 additional employee each year. DOR expects the total contractual costs to be \$4,300 each year. (2) Equipment - DOR expects equipment expense of \$8,000 per FTE in the first year for a computer, telephone, cubicle parts, software, and other one-time purchases of office equipment needed to perform the duties of the position.

**Revenue:** DOR estimates cigarette tax revenue to increase by approximately \$6 million in FY 2006 and 2007 as a result of this bill at which time the entire \$2 per pack tax rate would have been reached under SB 1001. DOR estimates the other tobacco products (OTP) tax to increase by approximately \$1.1 million in FY 2006 due to the increase taking effect half-way through the fiscal year and by \$2.2 million each year thereafter.