

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 188(HSS)  
 (H) Publish Date: 3/24/10

Identifier (File Name): HB188-REV-TAX-02-22-10 Dept. Affected: Revenue  
 Title: Tax on Moist Snuff RDU: Taxation and Treasury  
 Sponsor: Representative Herron Component: Taxation and Treasury  
 Requester: (H) Health & Social Services Component No.: 2476

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

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services	24.2	0.0	24.2	24.2	24.2	24.2	24.2	24.2
Travel	0.5	0.0	0.5	0.5	0.5	0.5	0.5	0.5
Contractual	186.2	0.0	1.2	1.2	1.2	1.2	1.2	1.2
Supplies	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>211.1</b>	<b>0.0</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>

<b>CAPITAL EXPENDITURES</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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<b>CHANGE IN REVENUES ( )</b>	*	<b>0.0</b>	*	*	*	*	*	*
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	211.1	0.0	26.1	26.1	26.1	26.1	26.1	26.1
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>211.1</b>	<b>0.0</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>	<b>26.1</b>

Estimate of any current year (FY2010) cost: 0

**POSITIONS**

Full-time	0.25	0	0.25	0.25	0.25	0.25	0.25	0.25
Part-time								
Temporary								

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

See Attached.

Prepared by: Johanna Bales  
 Division: Tax Division  
 Approved by: Ginger Blaisdell, Director  
 Agency: Administrative Services Division

Phone: 907-269-6628  
 Date/Time: 3-20-09; 4:01 p.m.  
 Date: \_\_\_\_\_

## FISCAL NOTE #1

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

BILL NO. CSHB 188(HSS)

### ANALYSIS CONTINUATION

#### **Bill Language:**

Alaska levies a tax on other tobacco products (OTP) at the rate of 75% of the wholesale cost. OTP includes any product containing tobacco that is not a cigarette. Moist snuff is one of many tobacco products upon which the OTP tax is currently levied. This bill will change the tax on moist snuff from an ad valorem tax (tax based on value) to a tax based on weight. All other tobacco products will continue to be taxed at the rate of 75% of the wholesale cost. Moist snuff will be taxed at the rate of \$1.88 per ounce. Moist snuff is defined as any finely cut, ground, or powdered tobacco that is not intended to be smoked or placed in the nasal cavity.

#### **Revenues:**

If Alaska had levied a tax on moist snuff at the rate of \$1.88 during fiscal year 2008 and consumption was not affected by the tax increase, total tobacco products tax revenue would have been approximately \$1.1 million more than what was collected. Historically, Alaska and other states have seen a drop in consumption of taxable cigarettes and other tobacco products when the tax rate is increased. This drop is due to a decrease in consumption as product price increases (price elasticity) and a decrease in taxable consumption as consumers turn to the Internet, mail order, or other means to purchase non-taxed product. The OTP tax is not levied on tobacco products, including moist snuff, that is imported into the state for personal consumption. It is legal for an individual to purchase other tobacco products off the Internet or through the mail without paying the tobacco products tax.

Based on an analysis of tax returns, the wholesale price of the most popular lower-priced brands in FY 2008 averaged \$1.03 per ounce. The average tax under the current tax structure in FY 2008 was \$.77 per ounce for a total average cost of \$1.80. Under the proposed weight-based tax, the total average cost would be \$2.91 per ounce, a 61% increase. Lower cost moist snuff products have an approximate 35% market share in Alaska. This market share has been increasing over the last few years as consumers continually look for cheaper products. It is expected that many of these consumers will turn to the Internet for moist snuff once the price of the product increases due to the increase in tax. This will, in turn, reduce the amount of revenue expected from this tax increase. Due to price elasticity and the unknown number of consumers who will turn to tax free Internet product, it is difficult to determine the change in revenues as a result of this legislation.

#### **Expenditures:**

This bill would require the Department of Revenue to add an additional tax program requiring a new tax return and license for other tobacco products. Collections, examination and compliance can be handled using existing staff. We anticipate requiring one-quarter of an Analyst Programmer IV (Range 20) for reprogramming and maintenance of the related aspects of our tax database system. There will also be \$185,000 in one-time startup expenses: \$175,000 for adding the new program to our tax examination and licensing system, and \$10,000 for education and communication with stakeholders as we implement the new tax program.