

Fiscal Note

State of Alaska
2021 Legislative Session

Bill Version:	CSSB 45(L&C)
Fiscal Note Number:	2
(S) Publish Date:	3/24/2021

Identifier: SB045-DOR-TAX-2-22-21
 Title: AGE FOR NICOTINE/E-CIG; TAX E-CIG.
 Sponsor: STEVENS
 Requester: (S) L&C

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2022	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2022 Request	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
OPERATING EXPENDITURES	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)	1,000.0		2,400.0	2,500.0	2,600.0	2,600.0	2,700.0
Total	1,000.0	0.0	2,400.0	2,500.0	2,600.0	2,600.0	2,700.0

Estimated SUPPLEMENTAL (FY2021) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2022) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
 If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/21

Why this fiscal note differs from previous version/comments:

No changes other than condensing the spacing under the Background section.

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Division:	Tax Division	Date:	02/22/2021 05:15 PM
Approved By:	Brian Fechter, Administrative Services Director	Date:	02/22/20
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2021 LEGISLATIVE SESSION

Analysis

Background

Alaska's excise tax on tobacco products other than cigarettes is levied at a rate of 75% of the wholesale value. All the revenue from this tax is deposited into the General Fund. This bill would make the vapor product, component, or solution used in electronic cigarettes subject to the excise tax on tobacco products. This change would only apply to solutions containing nicotine. Currently, these products do not fall under the definition of tobacco products and are not subject to tax at the state level. The tax rate for tobacco products would remain unchanged at 75% of the wholesale value. This bill would levy the tax when the product is brought into the state for sale or when the product is manufactured. The person bringing a vapor product into the state for sale or manufacturing the product in the state would be required to be licensed by the Tax Division. There is an application fee of \$50 for an excise tax on tobacco products license. This bill also raises Alaska's legal age for nicotine consumption from 19 to 21, to conform with federal law. This bill would take effect January 1, 2022.

Revenue Impact

No revenue impact is expected from the age change, as most sellers have already adjusted selling practices to reflect federal law.

The Department of Revenue (DOR) estimates that taxing the vapor products and components used in electronic cigarettes in the same method as other tobacco products, at 75% of the wholesale price, would generate an additional \$1 million in revenue in FY2022 and \$2.4 million in FY2023, rising with inflation to \$2.7 million in FY2027. The entirety of this revenue would be deposited into the General Fund. The reason for the lower revenue estimate in FY2022 is twofold— (1) revenue would only be collected for half of the fiscal year because the bill would take effect halfway through FY2022, and (2) we assume that distributors will stockpile inventory before the tax takes effect.

These estimates use data from the Matanuska-Susitna Borough's tax on e-cigarette sales and updated population data to develop an estimated tax base for Alaska. Since there is no statewide data available for electronic cigarette sales, there is a wide range of uncertainty around the revenue estimates.

DOR research suggests that some vapor products currently brought into the state are purchased by the final consumer over the internet. Shipments to the final consumer would be not taxable under this bill because the excise tax on tobacco products is only levied on products brought into the state for sale or manufactured in the state. This fiscal analysis does not include vapor products purchased online by the final consumer.

Implementation Cost

This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms. However, this legislation would not require the Department of Revenue to make material changes to its Tax Revenue Management System (TRMS). Therefore, there would be no cost to the Department of Revenue for implementation.

The Department does not anticipate any continuing costs or additional staff needs. The Department does estimate that there will be new taxpayers — the specialty shops that bring vapor products into the state for sale — which will be an additional administrative burden on the Division, but one that the Department can absorb.