

Fiscal Note

State of Alaska
2024 Legislative Session

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|---------------------|---------------|
| Bill Version: | CSHB 119(L&C) |
| Fiscal Note Number: | 15 |
| (H) Publish Date: | 5/3/2024 |

Identifier: HB119CS(L&C)-DOR-TAX-4-11-24
 Title: MARIJUANA TAX
 Sponsor: RLS BY REQUEST
 Requester: (H) FINANCE

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)

| | FY2025 | Included in | Out-Year Cost Estimates | | | | | |
|-------------------------------|-------------------------|---------------------------|-------------------------|----------------|----------------|----------------|----------------|----------------|
| | Appropriation Requested | Governor's FY2025 Request | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 | FY 2030 |
| OPERATING EXPENDITURES | FY 2025 | FY 2025 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 | FY 2030 |
| 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 | 0.0 |

Fund Source (Operating Only)

| | | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | | |
| Total | 0.0 | 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) | (2,920.0) | | (2,420.0) | (2,310.0) | (2,210.0) | (2,110.0) | (2,010.0) |
| 1252 DGF Temp (DGF) | (8,760.0) | | (7,270.0) | (6,930.0) | (6,640.0) | (6,340.0) | (6,030.0) |
| Total | (11,680.0) | 0.0 | (9,690.0) | (9,240.0) | (8,850.0) | (8,450.0) | (8,040.0) |

Estimated SUPPLEMENTAL (FY2024) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2025) cost: 2,000.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? Yes
(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? 12/31/24

Why this fiscal note differs from previous version/comments:

This version has been revised to use an updated fiscal analysis that incorporates the Spring 2024 revenue forecast, updated retail sales data, and updates to modeling methodology. This version also increases the estimated capital costs by \$1 million due to the extremely short timeline to rollout the necessary module for a retail sales tax (see analysis below under Implementation Cost).

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FISCAL NOTE ANALYSIS

STATE OF ALASKA
2024 LEGISLATIVE SESSION

Analysis

Background Tax Division

Under current statutes, Alaska levies a tax on marijuana sold or transferred from a marijuana cultivation facility to a retail marijuana store or marijuana product manufacturing facility. The tax rate is \$50 per ounce for bud/flower. The tax was created through voter initiative in 2014. The voter initiative granted the Department of Revenue (Department) authority to set a rate lower than \$50 per ounce for “certain parts of the marijuana plant.” The Department adopted a regulation that set the tax as \$50 per ounce for bud/flower, \$25 per ounce for immature, seedy, or failed bud/flower, \$15 per ounce for trim, and \$1 per plant for clones. For purposes of estimating a revenue impact for this fiscal note, the Department assumes that all parts of the plant would be taxed at the new rate of \$12.50 per ounce except that clones would still be taxed at \$1 per plant as set in regulation.

This bill would initially change the current cultivator tax rate in statute from \$50 per ounce to \$12.50 per ounce. The effective date for this change is July 1, 2024. On January 1, 2025, this bill would change the tax from its current cultivator tax to a retail sales tax of 6 percent of the sales price of marijuana products at a retail store. The bill would also change how the funds are allocated and the Department estimates reflect those designations in this fiscal note.

Revenue Impact

Changing the rate from \$50 per ounce to \$12.50 per ounce would reduce projected revenue in FY2025. Combining that change with the change to a 6 percent retail sales tax mid-way through the fiscal year would create an estimated reduction in revenue of \$11.7 million in FY2025.

The Department estimate that the revenue reduction will decrease slightly in future years due to inflation and market growth. The revenue estimates are based on a series of assumptions. The baseline revenue projections are taken from the Spring 2024 revenue forecast which assumes relatively slow demand growth of 1 percent annually for FY2025 and beyond coupled with an assumption that the percentage of marijuana taxed as bud/ flower, which has been declining for several years, will stabilize at 15 percent by the end of FY2026. The revenue projections for this bill are based on an FY2023 retail market size of \$281 million provided by the Alaska Marijuana Control Office (AMCO), or \$252 million excluding state taxes. It is assumed that the retail price, excluding state taxes, will remain stable in real terms, increasing with inflation and projected consumption growth. For FY2025, since this bill will result in an overall tax reduction, a price elasticity assumption is applied, resulting in a projected 3.6 percent increase in consumption compared to the baseline forecast. Uncertainty exists around each of these assumptions and different assumptions for the variables in this analysis would yield materially different results.

The projected revenue reductions are allocated between three funds, per the current statute, at the following percentages:

| | |
|----------------------------------------|-----|
| Recidivism Fund | 50% |
| Marijuana Education and Treatment Fund | 25% |
| Unrestricted General Fund | 25% |

Due to limitations of the Fiscal Note system, the Change in Revenues on page 1 can only be shown on two lines, therefore, DGF Temp (DGF) is the combination of Recidivism Fund (1246) and Marijuana Education and Treatment Fund (1254) as shown below:

| CHANGE IN REVENUES | | FY2025 | FY2025 | FY2026 | FY2027 | FY2028 | FY2029 | FY2030 |
|---------------------------------|------------------|-------------------|------------|------------------|------------------|------------------|------------------|------------------|
| 1004 | Gen Fund (UGF) | (2,920.0) | | (2,420.0) | (2,310.0) | (2,210.0) | (2,110.0) | (2,010.0) |
| 1246 | RcdvsmFund (DGF) | (5,840.0) | | (4,850.0) | (4,620.0) | (4,430.0) | (4,230.0) | (4,020.0) |
| 1254 | MET Fund (DGF) | (2,920.0) | | (2,420.0) | (2,310.0) | (2,210.0) | (2,110.0) | (2,010.0) |
| TOTAL CHANGE IN REVENUES | | (11,680.0) | 0.0 | (9,690.0) | (9,240.0) | (8,850.0) | (8,450.0) | (8,040.0) |

(Revised 10/31/23 OMB/LFD)

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2024 LEGISLATIVE SESSION

BILL NO. CSHB 119(L&C)

Analysis**Implementation Cost**

This bill would initially require the Department to make only minor changes to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file, pay, view their status, and communicate with the Division online. Resources required to implement the initial change of the tax rate would include staff time to update tax forms, TRMS, ROL, and other miscellaneous costs. These initial costs would be absorbed by the Tax Division using existing resources.

The change to a retail sales tax on January 1, 2025, would require significant changes to TRMS, ROL, and tax forms and would come at a cost. This bill would create a new sales tax at the retail level. A new tax type requires significant programming and testing before it can be rolled out. Standing up a sales tax would require developing a completely new module in TRMS.

The Department will need to engage FAST Enterprises, the Division's TRMS contractor, to develop a sales tax module, including a license function for a new taxpayer base, into TRMS and integrate the module with existing imaging, accounting, and collections modules.

In prior versions of this Fiscal Note, the Department estimated \$1 million in capital costs for the needed contract with FAST Enterprises to implement the new retail marijuana sales tax module. However, that estimate was based on having at least 12 months to design, develop, test, and rollout the new module. The Division has added an additional \$1 million to the estimated cost to expedite the rollout of the module so it would be ready in time. The current effective date of the change to a retail sales tax is January 1, 2025. The system would need to be available to accept marijuana retail taxpayer registrations at least 30 days prior to the effective date, which is an exceptionally short timeline for a rollout.

Since the new sales tax would replace the current tax with no overlap, the Division would be able to use existing staff to manage the new program for licensing, return processing, auditing, and customer service functions. The staff would have an additional enforcement function requiring travel of \$2.5 in the first year (because of the mid-year effective date) and \$5.0 in each future year. This is not included in the note as the annual total is under \$6.0.