

Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version:	CSHB 119(L&C)
Fiscal Note Number:	3
(H) Publish Date:	1/22/2024

Identifier: HB119CS(L&C)-DOR-TAX-01-19-24
 Title: MARIJUANA TAX
 Sponsor: RLS BY REQUEST
 Requester: (H) LABOR & COMMERCE

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	2.5		5.0	5.0	5.0	5.0	5.0	5.0
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	2.5	0.0	5.0	5.0	5.0	5.0	5.0	5.0

Fund Source (Operating Only)

1004 Gen Fund (UGF)	2.5		5.0	5.0	5.0	5.0	5.0	5.0
Total	2.5	0.0	5.0	5.0	5.0	5.0	5.0	5.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues

1004 Gen Fund (UGF)	(2,680.0)		(1,710.0)	(1,550.0)	(1,440.0)	(1,320.0)	(1,190.0)
1252 DGF Temp (DGF)	(8,120.0)		(5,200.0)	(4,740.0)	(4,380.0)	(4,010.0)	(3,620.0)
Total	(10,800.0)	0.0	(6,910.0)	(6,290.0)	(5,820.0)	(5,330.0)	(4,810.0)

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

Estimated CAPITAL (FY2025) cost: 1,000.0 *(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 If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/24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 match the current bill version U. The primary changes are (1) retail tax rate changed from 10% to 6%, and (2) updated the effective date of cultivation tax rate change from July 1, 2023 to July 1, 2024. The effective date of the transition to a retail sales tax remains as January 1, 2025. This version also uses an updated fiscal analysis.

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Division:	Tax	Date:	01/19/2024 05:30 PM
Approved By:	Eric DeMoulin	Date:	01/20/24
Agency:	Administrative Services		

FISCAL NOTE ANALYSIS

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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, we assume 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% 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 FY25. Combining that change with the change to a 6% retail sales tax mid-way through the fiscal year would create an estimated reduction in revenue of \$11.9 million in FY25.

We estimate that the revenue reduction will decrease slightly in future years due to inflation, market growth, and population growth.

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%

DGF Temp (DGF) is the combination of Recidivism Fund (1246) and Marijuana Education and Treatment Fund (1254).

CHANGE IN REVENUES		FY2025	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
1004	Gen Fund (UGF)	(2,680.0)		(1,710.0)	(1,550.0)	(1,440.0)	(1,320.0)	(1,190.0)
1246	RcdvsmFund (DGF)	(5,410.0)		(3,470.0)	(3,160.0)	(2,920.0)	(2,670.0)	(2,410.0)
1254	MET Fund (DGF)	(2,710.0)		(1,730.0)	(1,580.0)	(1,460.0)	(1,340.0)	(1,210.0)
TOTAL CHANGE IN REVENUES		(10,800.0)	0.0	(6,910.0)	(6,290.0)	(5,820.0)	(5,330.0)	(4,810.0)

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.

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BILL NO. CSHB 119(L&C)

Analysis

The change to a retail sales tax on July 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, our TRMS contractor, to develop a sales tax module, including a license function for a new taxpayer base, into TRMS and integrate the module with our existing imaging, accounting, and collections modules. The \$1 million FY2024 capital costs is an estimate for the needed contract with FAST Enterprises to develop the new retail marijuana sales tax module.

Since the new sales tax would replace the current tax with no overlap, we 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 which is included as a cost in this note of \$2,500 in the first year (because of the mid-year effective date) and \$5,000 in each future year.