

**SB**

**13**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 23, 1997

FURTHER REFERRALS:

Date of Committee Action: 4/24/97

The FINANCE Committee considered:

CSSB 13(RLS)

CS FOR SENATE BILL NO. 13(RLS)

INCREASE TOBACCO TAXES

"An Act relating to taxes on cigarettes and tobacco products and to the use of the proceeds of those taxes, and increasing by at least 35.5 mills the amount of excise tax levied on each cigarette imported or acquired in the state; and providing for an effective date."

recommends it be replaced with the following committee substitute HCS CSSB 13(HES) [ ] the same title  
[ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee  
[ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

[ ] fiscal note(s) \_\_\_\_\_

[x] fiscal note(s) Revenue 4/7/97

[ ] zero fiscal note(s) \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Gene Therriault</i> Therriault			X	
<i>Mark Hanley</i> Hanley			X	
<i>Bob Mulder</i> Mulder		X		
<i>Ferry Martin</i> Martin		X	<del>X</del>	
<i>Jim Kohring</i> Kohring		X		
<i>J. N. Davis</i> J. Davis	X			
<i>Ben Grussendorf</i> Grussendorf			X	
<i>Walter Moses</i> Moses		X		
<i>G. Davis</i> G. Davis			X	
<i>Mark Kelly</i> Kelly			X	
<i>FOSTER</i> FOSTER		X		

CO-CHAIR'S SIGNATURE

*Gene Therriault* *Mark Hanley*  
Therriault Hanley

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Increase Tobacco Taxes BRU: Revenue Operations  
 Component: Income and Excise Audit  
 Sponsor: Senator Sharp  
 Requestor: (S) FIN COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	30.0	30.0	30.0	30.0	30.0	30.0
TRAVEL	0.5	0.5	0.5	0.5	0.5	0.5
CONTRACTUAL	6.5	1.5	1.5	1.5	1.5	1.5
SUPPLIES	0.5	0.5	0.5	0.5	0.5	0.5
EQUIPMENT	4.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>41.5</b>	<b>32.5</b>	<b>32.5</b>	<b>32.5</b>	<b>32.5</b>	<b>32.5</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES</b>	<b>22,048.0</b>	<b>33,072.0</b>	<b>33,072.0</b>	<b>33,072.0</b>	<b>33,072.0</b>	<b>33,071.0</b>

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	41.5	32.5	32.5	32.5	32.5	32.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>41.5</b>	<b>32.5</b>	<b>32.5</b>	<b>32.5</b>	<b>32.5</b>	<b>32.5</b>

Estimate of any current year (FY97) cost \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Brett Fried, Economist Phone: 465-3682  
 Division: Income and Excise Audit Division Date: April 7, 1997  
 Approved by Commissioner: Wilson L. Condon Date: April 7, 1997  
 Agency: Department of Revenue

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**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Increase Tobacco Taxes  
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**BILL ANALYSIS**

**Section 1** discusses legislative intent.

**Section 2** increases the School Fund portion of the cigarette tax rate by \$ .71 per pack of 20; from 2.5 mills per cigarette (\$.05 per pack) to 38 mills per cigarette (\$.76 per pack). Combining this rate with the 12 mills per cigarette (\$.24 per pack) levied under AS 43.50.190, which goes to the General Fund, the total tax rate on a pack of cigarettes would increase from \$.29 to \$1.00. Additionally changes the percent that the licensee can deduct to cover expenses from 1 to four-tenths of one percent of the tax due.

**Section 3** This section only takes effect if section 2 of this act is ruled unconstitutional (see section 8). If so, the statute would be amended back to how it was prior to the bill passage.

**Section 4** This section only takes effect if section 2 is ruled unconstitutional (see section 8). If so, this section increases the General Fund portion of the cigarette tax rate by \$.71 per pack of 20; from 12 mills per cigarette (\$.24 per pack) to 47.5 mills per cigarette (\$.95 per pack). Combining this rate with the 2.5 mills per cigarette (\$.05 per pack) levied under AS 43.50.090, which is dedicated to the School Fund, the total tax rate on a pack of cigarettes would increase from \$.29 to \$1.00.

**Section 5** increases the tobacco products tax rate from 25% to 75% of the wholesale price of the tobacco products.

**Section 6** provides for the disposition of tax collected under section 5 of this act to the general fund. These tax proceeds may then be used by the legislature to make appropriations to health programs as well as programs targeted at reducing tobacco use of children. Additionally changes the percent that the licensee can deduct to cover expenses from 1 to four-tenths of one percent of the tax due.

**Section 7** discusses the legislative intent not to create a dedicated fund.

**Section 8** provides for section 3 and 4 of this act only taking effect if dedication of the proceeds of the cigarette tax to the School Fund is found to be unconstitutional.

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

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Section 9 establishes that if section 2 is ruled unconstitutional and sections 3 and 4 of this act take effect then revenue derived under section 2 (prior to it being found unconstitutional) that exceeds the original 2.5 mills will be credited to the tax levied under AS 43.50.190 (a) as amended by section 4 of this act.

Section 10 establishes an effective date of October 1, 1997 for sections 1, 2, 5-7 and 9 of this act.

Section 11 establishes an effective date of which ever of the following comes later for sections 3 and 4 of this act: (1) when a court enters a final judgement that the amendment under section 2 of this act is unconstitutional or (2) when the time for appeal has expired or upon entry of a final order on the appeal that section 2 is unconstitutional.

**OPERATING EXPENDITURES**

Department of Revenue is requesting operating funds to cover ½ the costs of a Revenue Auditor III position. With such a large increase in taxes due the state (increase from \$17 to \$50 million annually), the department anticipates increased taxpayer noncompliance.

With significantly higher levels of tax, it is possible that taxpayers will look for loopholes or other methods of tax avoidance. This ½ position will be responsible for ensuring that all taxpayers are identified and that taxpayers are filing and paying the proper amount of tax. The projected annual salary costs for the ½ portion of this position comes to \$30.0.

The department is also requesting one time FY 98 funding of \$5.0 for contractual funds to cover costs of public notice of rate increases, forms revisions and postage, and \$4.0 for equipment (\$3.5 for computer costs and \$.5 for office equipment). The recurring costs will be \$2.5 to cover travel, contractual and supplies.

**REVENUE COLLECTED**

The attached spreadsheet details revenue projections from rate increases in this bill.

**Alaska Department of Revenue**  
**Income and Excise Audit Division**  
*Projected Revenue Increases from Change in Tobacco Tax Rates*

Increase Tobacco Taxes  
 CSSB 13  
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	FY 98*	FY99	FY 00	FY 01	FY 02	FY 03	FY 04
<b>Cigarettes</b>							
<i>Elasticity Factor</i>	-13.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Consumption (packs of cigarettes)	30,487,136 *	45,730,706	45,730,706	45,730,706	45,730,706	45,730,706	45,730,706
Rate	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Cigarette Tax	\$30,487,136	\$45,730,706	\$45,730,706	\$45,730,706	\$45,730,706	\$45,730,706	\$45,730,706
Less 4 % Commission	(121,949)	(182,923)	(182,923)	(182,923)	(182,923)	(182,923)	(182,923)
Net Cigarette Tax	\$30,365,188	\$45,547,783	\$45,547,783	\$45,547,783	\$45,547,783	\$45,547,783	\$45,547,783
FY 97 Projected Net Cigarette Tax	(10,083,937) *	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)
Net Cigarette Tax Increase Into the School Fund	\$20,281,251	\$30,421,878	\$30,421,878	\$30,421,878	\$30,421,878	\$30,421,878	\$30,421,878
<b>Tobacco Products</b>							
<i>Elasticity Factor</i>	-13.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Consumption (Whole. Pr. 1996 \$)	\$3,825,216 *	\$5,737,824	\$5,737,824	\$5,737,824	\$5,737,824	\$5,737,824	\$5,737,824
Rate	75%	75%	75%	75%	75%	75%	75%
Tobacco Products Tax	\$2,868,912	\$4,303,368	\$4,303,368	\$4,303,368	\$4,303,368	\$4,303,368	\$4,303,368
Less 4 % Commission	(11,476)	(17,213)	(17,213)	(17,213)	(17,213)	(17,213)	(17,213)
Net Tobacco Products Tax	\$2,857,436	\$4,286,154	\$4,286,154	\$4,286,154	\$4,286,154	\$4,286,154	\$4,286,154
FY 97 Projected Net Tob. Prod. Tax	(1,090,715)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)
Net Tobacco Prod. Tax Increase	\$1,766,721	\$2,650,081	\$2,650,081	\$2,650,081	\$2,650,081	\$2,650,081	\$2,650,081
<b>Cigarette and Tob. Products</b>							
Cigarette and Tobacco Tax	\$33,222,624 *	\$49,833,937	\$49,833,937	\$49,833,937	\$49,833,937	\$49,833,937	\$49,833,937
Net Cig. and Tob. Tax Increase	\$22,047,972 *	\$33,071,959	\$33,071,959	\$33,071,959	\$33,071,959	\$33,071,959	\$33,071,959

\*Note: The bill's effective date results in the tax increase covering 8 months in FY 98.

# Alaska State Legislature

SENATOR  
**BERT SHARP**  
DISTRICT P  
CO-CHAIRMAN  
SENATE FINANCE COMMITTEE  
MEMBER  
RESOURCE COMMITTEE



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## S P O N S O R S H I P S T A T E M E N T HCSCSSB-13(HSS) INCREASE TOBACCO TAX

SPONSORED BY: SENATOR BERT SHARP

This bill is a an education bill, a health bill and a revenue bill.

Section 1, details the legislative intent and purpose of the bill. Section 1, items (1) and (2), starting on line 8, directs the cigarette tax be deposited to the existing "dedicated school fund" and can only be used for rehabilitation, construction and repair of the state's school facilities per AS 43.50.140.

Sections 2, 3 and 4, increases the tax on each cigarette by .71 cents per pack.

Section 5, increases the excise tax on tobacco products (non-cigarettes) from 25% of wholesale value to 75% of wholesale value.

Section 6. amends AS 43.50.330(b) to change the percentage the licensee deducts to cover accounting and filing expenses from one percent to four-tenths of one percent.

Sections 7, 9, 10, sets varying conditions and effective dates depending on any possible court decisions.

Section 8, allows for a retroactive fall-back clause to accommodate any court ordered changes.

The accompanying fiscal note analysis breaks the estimated revenue from cigarettes and that from other tobacco products, because of the constitutional constraints and proposed different uses. These amounts would represent a significant portion of the \$66 million of new revenue that we have committed to raise in FY'98 per our long range fiscal plan. I urge your consideration of the several positive public policy elements of this proposal and the strong public support of this action statewide.



REPRESENTING  
GOLDEN HEART  
OF ALASKA

<u>Description</u>	<u>Mills Per Cigarette</u>	<u>Cents Per Pack</u>	<u>Net Change: New-Old</u>
<u>Existing Statutes</u>			
OLD Tax on Cigarettes:			
School Fund	2.5	\$ .05	- 0 -
Excise Tax to General Fund	12.0	\$ .24	- 0 -
Additional Education/Enforcement	0	0	- 0 -
Total amount collected	<u>14.5</u>	<u>\$0.29</u>	<u>- 0 -</u>

Deduction for Administrative Expense: One (1) percent of tax due.

New Statute: IF Section 2 is effective:

NEW Tax on Cigarettes:			
School Fund	38.0	\$0.76	\$0.71
Excise Tax to General Fund	12.0	\$0.24	-0-
Total amount collected	<u>50.0</u>	<u>\$1.00</u>	<u>\$0.71</u>

Deduction for Administrative Expense: Four tenths of One (1) percent.

New Statute: IF Sections 3 and 4 are effective:

NEW Tax on Cigarettes:			
School Fund	2.5	\$ .05	- 0 -
Excise Tax to General Fund	47.5	\$0.95	\$0.71
Total amount collected	<u>50.0</u>	<u>\$1.00</u>	<u>\$0.71</u>

Deduction for Administrative Expense: Four tenths of One (1) percent.

New Statute: Sections 5, 6:

Tax on OTHER tobacco products:

OLD: Existing statutes	25 percent of the wholesale price
NEW: CSSB 13(FIN)	75 percent of the wholesale price

Additional support for Education and enforcement, by appropriation.  
 Deduction for Administrative Expense: Four tenths of One (1) percent.

NOTE: Each one mill per cigarette equals two cents per pack.