

**SB**

**13**

SFIN

FILE

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/14/97

REPORTED OUT OF  
FURTHER <sup>FC</sup> APR 4 1997

DATE TURNED  
IN TO OFFICE: 4-7-97

Finance Committee considered SENATE BILL NO. 13

"An Act relating to taxes on cigarettes and tobacco products, and to the use of the proceeds of those taxes; and providing for an effective date."

and recommends:

- be replaced with CS SB 13 ( FIN )
- adopt previous CS (          )
- attached amendment(s)
- adopt Letter of Intent by                                  Committee
- further referral to the                                  Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical change
  - new: SCR#

SIGNING <del>DO</del> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Cal Adams</i>	X	<i>Roll E (Jelly)</i>	✓		
<i>John Ingram</i>	✓	<i>Ann R. Harrell</i>	✓		
Co-Chair: <i>Deane</i>	✓	Co-Chair: <i>                        </i>			
Co-Chair: <i>Bill Noyes</i>		Co-Chair: <i>                        </i>			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal
Updated FN			
Requested from			
Revenue for			
(FIN) CS			
REV	1/7		41.5

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

APR 4 1997

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>
CAPITAL EXPENDITURES						
<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  
CSSB 13(FIN)  
April 7, 1997  
Page 2 of 4

**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 sections 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***

Increase Tobacco Taxes  
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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  
 April 7, 1997  
 Page 4 of 4

	FY 98*	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
<b>Cigarettes</b>							
<i>Elasticity Factor</i>	-13.2%	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>	-13.2%	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.

Moved by Phillips  
Adopted w/o objection

0-LS0159Q.1  
Chenoweth  
4/4/97

A M E N D M E N T

SENATE FINANCE  
COMMITTEE

Amendment Number: 2  
Bill Number: CSSB 13(FIN)  
Sponsor: \_\_\_\_\_ Date: 4/4/97  
Logged In By: J. Saltare

OFFERED IN THE SENATE

TO: CSSB 13(FIN) ("Q" Version, Dated 4/3/97)

- 1 Page 2, line 8, following "deducting":
- 2       Insert "four-tenths of"
  
- 3 Page 2, line 16, following "deducting":
- 4       Insert "four-tenths of"
  
- 5 Page 3, following line 1:
- 6       Insert a new bill section to read:
- 7       "\* Sec. 6. AS 43.50.330(b) is amended to read:
- 8               (b) The licensee shall remit with the return the tax due under AS 43.50.300
- 9       for the month covered by the return, after deducting four-tenths of one percent of the
- 10       tax due, which the licensee shall retain to cover the expense of accounting and filing
- 11       the return."
  
- 12       Renumber the following bill sections accordingly.
  
- 13       Page 3, line 26:
- 14               Delete "sec. 8"
- 15               Insert "sec. 9"
  
- 16       Page 4, line 1:
- 17               Delete "5 - 7, and 9"
- 18               Insert "5 - 8, and 10"
  
- 19       Page 4, line 2:

- 1 Delete "sec. 8"
- 2 Insert "sec. 9"

SENATE FINANCE  
COMMITTEE  
Amendment Number: 1  
Bill Number: SB 13  
Sponsor: Torgerson Date: 4/4/97  
Logged In By: J. Britani

Moved by Torgerson  
Pearce object  
Vote Failed 2-21  
0-LS0159\K.3 -  
Chenoweth  
4/2/97

A M E N D M E N T

OFFERED IN THE SENATE  
TO: CSSB 13(HES)

BY SENATOR TORGERSON

1 Page 6, following line 18:

2 Insert new bill sections to read:

3 **\*\* Sec. 15. VOTER APPROVAL OF ACT.** (a) The lieutenant governor shall place  
4 before the qualified voters of the state at the next general election the question of whether  
5 this Act shall take effect. The question shall appear on the ballot in the following form:

6 Q U E S T I O N

7 Shall ch. \_\_\_\_\_, SLA 1997, relating to taxes on  
8 cigarettes and tobacco products, and to the  
9 filings of returns for and the use of the proceeds  
10 of those taxes, take effect?

11 Yes [ ]

12 No [ ]

13 (b) The lieutenant governor shall fill in the blank in (a) of this section designating  
14 the chapter number of this Act before submitting the question set out in (a) of this section  
15 to the voters.

16 **\* Sec. 16. TAKING EFFECT OF THIS ACT CONDITIONAL.** This Act takes effect only  
17 if a majority of the qualified voters of the state who vote on the question presented in sec. 15  
18 of this Act favors the question."

19 Renumber the following bill sections accordingly.

20 Page 6, line 19:

21 Delete "Sections"

22 Insert "If, under sec. 16 of this Act, this Act takes effect, sections"

23 Delete "October 1, 1997"

1           Insert "on the 60th day after certification by the lieutenant governor of the results of  
2 the election on the question presented under sec. 15 of this Act"

3 Page 6, line 20, following "If":

4           Insert ", under sec. 16 of this Act, this Act takes effect and if"

A M E N D M E N T

SENATE FINANCE  
COMMITTEE

Amendment Number: 2  
Bill Number: CSSB 13(FIN)  
Sponsor: \_\_\_\_\_ Date: 4/4/97  
Logged In By: J. Kaitaru

OFFERED IN THE SENATE

TO: CSSB 13(FIN) ("Q" Version, Dated 4/3/97)

- 1 Page 2, line 8, following "deducting":
- 2       Insert "four-tenths of"
  
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- 4       Insert "four-tenths of"
  
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- 18               Insert "5 - 8, and 10"
  
- 19       Page 4, line 2:

- 1 Delete "sec. 8"
- 2 Insert "sec. 9"

adopted w/o objection  
moved by: Sen. Pearce  
Rescinded w/o objection  
(motion by Adams)

SENATE FINANCE  
COMMITTEE

Amendment Number: 2  
Bill Number: SB 13  
Sponsor: \_\_\_\_\_ Date: 4/4/97  
Logged In By: Joltaru

Amendment

CSSB 13(FIN) Workdraft O-ISO159Q

Page 2 line 8

month covered by the return, deducting [one] .4 percent of the total tax due, which the

Page 2 line 16

month covered by the return, deducting [one] .4 percent of the total tax due, which the

Amendment

Add new section Number 8

\* Sec. ~~8~~<sub>8</sub>. AS 43.50.330(b) is amended to read:

(b) The licensee shall remit with the return the tax due under AS 43.50.300 for the month covered by the return, after deducting <sup>four</sup>~~three~~-tenths of one percent of the tax due, which the licensee shall retain to cover the expense of accounting and filing the return.

Renumber sections accordingly