

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 271** HLS 17RS 745
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 23, 2017 2:56 PM	Author: HOFFMANN
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Tax Increase On Vapor Products and Electronic Cigarettes	

TAX/TOBACCO TAX OR +\$1,200,000 GF RV See Note Page 1 of 1
 Levies an additional state excise tax on vapor products and electronic cigarettes

Present law levies an excise tax of 5¢ per milliliter of consumable nicotine liquid solution or other material containing nicotine used in vapor products and electronic cigarettes.

Proposed law increases the tax rate by 8¢, to 13¢ per milliliter. Applicable to products purchased by dealers on and after July 1, 2017, and does not apply to existing inventories of product.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$6,000,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$6,000,000

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (\$26,000 in this case). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

REVENUE EXPLANATION

Collections of the current 5¢ per milliliter tax generated \$744,000 in FY16 from wholesale and retail dealers combined. Thus, an additional 8¢ per milliliter tax has the potential to generate an additional \$1.190 million of tax, assuming tax-paid purchases remain at least the same as in FY16. These products appear to be a growing area of the tobacco/nicotine market, and some growth from FY16 through the fiscal note horizon is likely. However, the current tax has only been in place since August of 2015, providing an insufficient history upon which to base annual growth expectations.

In addition, dealers may opt to avoid the tax altogether by making more purchases online or out-of-state and not report those purchases. Even without avoidance behavior, remitters can distort the timing of additional tax receipts by stockpiling product before the rate increase goes not effect. These influences work against and/or distort the timing of the expected revenue increase above, and insufficient history of tax remitter behavior is available upon which to base an assessment of these potential responses.

The positive effect of underlying base growth and the negative response influences are offsetting to some degree, and the simple tax rate increase extrapolation is utilized or this fiscal note.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
John D. Carpenter
Legislative Fiscal Officer