

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 18** HLS 161ES 151
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.: **REVISED**

Date: March 1, 2016 6:59 PM	Author: MONTOUCET
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: Reduction in discount rates for tobacco tax and stamps	

TAX/TOBACCO TAX OR +\$1,100,000 GF RV See Note Page 1 of 1

Reduces the amount of the discount for accurately reporting and remitting excise taxes on certain tobacco products and the amount of the discount for stamping cigarettes (Item #22)

Current law requires tobacco tax stamps to be affixed on cigarettes received by a tobacco dealer. Registered tobacco dealers with gross cigarette stamp purchases greater than \$100 are provided a 6% discount as vendor compensation for expenses related to tax collection and as a volume discount. Registered dealers of other tobacco products with a direct purchasing contract with the manufacturer and who file timely and accurate tax reports are also offered a 6% as vendor compensation for expenses related to tax collection and as an incentive to timely file. A wholesaler located out of state is limited to the lesser of 6% or the discount offered in that state.

Proposed law reduces the discount for other tobacco products by 1% as well as the discount for bulk purchases of cigarette stamps, each from 6% to 5%, a reduction of 17%. The bill removes the language limiting the discount to that of the wholesalers' domicile state. Effective April 1, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$5,500,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$5,500,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000	\$11,000,000

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. The Department indicates that any implementation costs will be absorbed in the current budget. Though the cost of this bill is minimal, the aggregate impact of all session bills may require additional resources. With the bill effective upon signature, implementation complications may arise if the rate change becomes effective in the middle of a month.

REVENUE EXPLANATION

According to the Tax Exemption Budget, tobacco discounts of \$8.2M were allowed in FY 15, with \$6.8M from the bulk stamp discount (cigarettes) and \$1.5M from the timely filing and payment discount for other tobacco products (OTP). However, since FY 15, the tobacco tax rate was increased. With additional tobacco tax remittances, it is expected that corresponding discounts will also increase.

The fiscal note estimate is based on the current REC forecast for tobacco tax in FY 16 and FY 17, imposing the three year average effective discount rate of 4.4% to get a total discount cost of \$13.0M. The typical distribution is 82% due to the bulk stamp discount (or \$10.6M) and 18% (or \$2.3M) due to the OTP discount. If these amounts are reduced by 17% due to the discount rate decreases in the bill (1% of the 6% current rate), the savings to the state would total \$2.2M with \$1.8M reduced from bulk stamp discounts and \$400,000 from OTP discounts. These amounts would be reflected in greater net remittances of the tobacco tax. About 63% of the tax from cigarettes is dedicated to the Health Excellence Fund, the Tobacco Tax Healthcare Fund, the Tobacco Regulation Enforcement Fund, and the Tobacco Tax Medicaid Match Fund. The table above reflects this breakdown with 63% of the \$1.8M estimated impact or \$1.1M increasing the various statutory dedications and the remainder of tobacco tax collections increasing the state general fund by \$1.1M.

There is no explicit impact from delinking the discount to the wholesalers' domicile state. The bill becomes effective upon signature of the governor, which would allow the rate changes to become effective during FY 16. If implementation occurs without delay, it is assumed that the increase will be in effect for the final quarter of FY 16 and is estimated to increase total net tobacco tax collections by about \$550,000, with the means-of-finance impact split equally at \$275,000 each in statutory dedications and the state general fund.

Note: The fiscal note was revised to provide clarifying language and to correct a discrepancy in the dedicated amount. Previously, the dedicated amount was based on all tobacco products but only a portion of the tobacco tax related to cigarettes is currently dedicated.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

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