

February 18, 2015

The Honorable Marvin KleeB, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative KleeB:

SUBJECT: Fiscal Note for HB 2306 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2306 is respectfully submitted to your committee.

HB 2306 would increase the state's cigarette, tobacco products, and liquor enforcement taxes on July 1, 2015. The bill would increase the cigarette tax to \$2.29 a pack (from \$0.79 a pack), increase the tobacco products tax to 25.0 percent of the wholesale price (from 10.0 percent), and increase the liquor enforcement tax to 12.0 percent on gross receipts (from 8.0 percent). The bill would establish an inventory tax for all cigarette and tobacco products on hand as of July 1, 2015. The inventory tax would be \$1.50 per pack for cigarettes and 15.0 percent of the wholesale sales price for tobacco products on hand as of July 1, 2015 and the inventory tax would be due on July 31, 2015.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$107,860,000	\$107,860,000
Expenditure	--	--	\$30,900	\$30,900
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2306 would increase State General Fund revenue by \$107,860,000 in FY 2016. The increase in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	--	2,300,000
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	--	2,270,000
Compensating Use	380,000	--	380,000
Cigarette	88,000	71,910	159,910
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	35,950	150,050
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	\$ 107,860	\$6,078,460
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	\$ 107,860	\$5,919,260

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$104,050,000	\$104,030,000	\$104,020,000	\$104,040,000

The bill would result in the collection of \$71,910,000 in additional cigarette taxes, \$8.9 million in additional tobacco product taxes, and \$27,050,000 in additional liquor enforcement taxes in FY 2016 that would be deposited into the State General Fund. The cigarette, tobacco products, and liquor enforcement taxes would go into effect beginning on July 1, 2015. The estimate for FY 2016 includes \$17,410,000 for the collection of the inventory tax for cigarettes and \$700,000 for the collection of the inventory tax for tobacco products.

To formulate these estimates, the Department of Revenue reviewed data on cigarette and tobacco product tax receipts, including data from 2002 when the taxes on cigarette and tobacco products were last increased. In computing the amount of cigarette and tobacco products taxes

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that would be generated, the Department reviewed data on cost avoidance and purchasing habit changes (lag factor). This methodology was used in 2002 when the cigarette tax was increased in from \$0.24 to \$0.79 per pack, which resulted in a 20.0 percent reduction in the number of cigarette packs sold the year after the rate change and an additional 5.0 percent reduction in the following year. This time, with the cigarette tax changing from \$0.79 to \$2.29 a pack, the impact on purchasing habits would presumably be greater.

The Department of Revenue indicates the bill would require \$30,900 from the State General Fund in FY 2016 for administrative costs to implement the bill, including changes to forms and instructions, and modifications to the Department's computer processing system to collect and process the inventory taxes on cigarettes and tobacco products. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2306 is reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, KDOR
Aaron Dunkel, KDHE
Jackie Aubert, DCF
Willie Prescott, Attorney General's Office
Brad Ridley, KDADS