

February 23, 2017

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2231 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2231 is respectfully submitted to your committee.

HB 2231 would increase the state's cigarette and tobacco products taxes on July 1, 2017. The bill would increase the cigarette tax to \$2.79 a pack (from \$1.29 a pack) and increase the tobacco products tax to 65.0 percent of the wholesale price (from 10.0 percent). The bill would establish an inventory tax for all cigarette and tobacco products on hand as of July 1, 2017. The inventory tax would be \$1.50 per pack for cigarettes and would be due on October 31, 2017. The inventory tax would be 55.0 percent of the wholesale sales price for tobacco products on hand as of July 1, 2017 and the inventory tax would be due on July 31, 2017.

The bill would also create the Cigarette and Tobacco Cessation Fund to be administered by the Kansas Department of Health and Environment (KDHE) to promote the cessation of cigarette and tobacco usage. The first \$5.0 million in cigarette and tobacco products tax revenue collected each year would be deposited in the Cigarette and Tobacco Cessation Fund.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2018 SGF | FY 2018 All Funds | FY 2019 SGF | FY 2019 All Funds |
| Revenue | \$84,990,000 | \$89,990,000 | \$82,690,000 | \$87,690,000 |
| Expenditure | \$17,908 | \$5,017,000 | -- | \$5,000,000 |
| FTE Pos. | -- | 1.00 | -- | 1.00 |

The Department of Revenue estimates that HB 2231 would increase state revenues by \$89,990,000 in FY 2018 and by \$87,690,000 in FY 2019. Of those totals, the State General Fund is estimated to increase by \$84,990,000 in FY 2018 and by \$82,690,000 in FY 2019, while the Cigarette and Tobacco Cessation Fund is estimated to increase by \$5.0 million in both FY 2018 and FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

| | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> |
|------------------------------------|------------------|------------------|------------------|
| State General Fund | \$82,300,000 | \$81,910,000 | \$81,640,000 |
| Cigarette & Tobacco Cessation Fund | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| | \$87,300,000 | \$86,910,000 | \$86,640,000 |

The specific changes in revenues from the tax law changes for FY 2018 and FY 2019 are shown in the following table:

| | <u>FY 2018</u> | <u>FY 2019</u> |
|--------------------------------------|------------------|----------------|
| Cigarette Tax to \$2.79 per pack | \$45,300,000 | \$53,090,000 |
| Cigarette Inventory Tax | 15,990,000 | -- |
| Tobacco Products Tax to 65.0 Percent | 27,600,000 | 34,600,000 |
| Tobacco Products Inventory Tax | <u>1,100,000</u> | <u>--</u> |
| Total Tax Law Changes | \$89,990,000 | \$87,690,000 |

The Department indicates that the bill would require \$17,908 from the State General Fund in FY 2018 for administrative costs to implement the bill, including changes to forms and publications, notification to taxpayers, and internal accounting changes to ensure that the first \$5.0 million of cigarette and tobacco products tax revenue is deposited in the Cigarette and Tobacco Cessation Fund.

KDHE indicates that the bill would provide \$5.0 million in cigarette and tobacco products tax revenue to promote the cessation of cigarette and tobacco usage. KDHE indicates that it would use the additional money to hire 1.00 new FTE position to work with KDHE media vendors to promote the cessation of cigarette and tobacco usage with paid television, radio, print, or digital advertising at the state and local levels. The additional funding would also allow KDHE to work with health care professionals and other partners to fund health promotion activities. Any fiscal effect associated with HB 2231 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
 Director of the Budget

cc: Lynn Robinson, Department of Revenue
 Dan Thimmesch, Health & Environment