

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 26** HLS 161ES 68  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

**Date:** February 16, 2016 5:01 PM **Author:** COX  
**Dept./Agy.:** Revenue **Analyst:** Deborah Vivien  
**Subject:** Reduction in discount rates for tobacco tax and stamps

TAX/TOBACCO TAX OR +\$2,400,000 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 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 tobacco dealers 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 by half the discount for timely payment as well as the discount for bulk purchases of tobacco stamps, each from 6% to 3%. The bill removes the language limiting the discount to that of the wholesalers' domicile state.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000	<b>\$12,000,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$4,100,000	\$4,100,000	\$4,100,000	\$4,100,000	\$4,100,000	<b>\$20,500,000</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$6,500,000</b>	<b>\$6,500,000</b>	<b>\$6,500,000</b>	<b>\$6,500,000</b>	<b>\$6,500,000</b>	<b>\$32,500,000</b>

**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 and \$1.5M from the timely filing and payment discount. 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 timely filing and payment discount. If these amounts are cut in half due to the discount rate decreases in the bill, the savings to the state would total \$6.5M with \$5.3M reduced from bulk stamp discounts and \$1.2M from timely filing and payment discounts. These amounts would be reflected in greater net remittances of the tobacco tax, about 63% of which 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 \$6.5M estimated impact or \$4.1M increasing the various statutory dedications and 37% of the estimated impact or \$2.4M increasing the state general fund.

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 \$1.6M, with the means-of-finance impact split between a \$1M increase in statutory dedications and a \$600,000 increase in the state general fund.

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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