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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

March 15, 2012

The Honorable Pete Brungardt, Chairperson
Senate Committee on Federal and State Affairs
Statehouse, Room 136-E
Topeka, Kansas 66612

Dear Senator Brungardt:

SUBJECT: Fiscal Note for SB 462 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 462 is respectfully submitted to your committee.

SB 462 would increase the state's tobacco products tax to 30.0 percent of the wholesale price (from 10.0 percent). The bill would establish an inventory tax for all tobacco products on hand as of July 1, 2012, which would be the effective date of the tax increase. For tobacco products, the inventory tax at the retail level would be set at 20.0 percent of the retail invoice price to the consumer and would be required to be paid by the retailer on or before September 30, 2012. The bill also includes language that would automatically increase the tobacco products tax when there is an increase in the cigarette tax.

The bill would create the term "little cigars" as a new category of tobacco product and would require that little cigars be taxed at the same rate imposed on cigarettes. The bill defines little cigars as any roll of tobacco wrapped in leaf tobacco or any substance containing tobacco, and as to which 1,000 units weigh not more than four pounds. The bill creates a licensing requirement for retailers selling other tobacco products, eliminates all exceptions to free samples, creates a ten-year period after revocation for reapplication, changes the standard of licensee character analysis, allows the Director of Taxation to require reports to be filed electronically, and makes technical changes to the tobacco statutes.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	$10,800,000	$10,800,000
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 462 would increase State General Fund revenues by $10.8 million in FY 2013. The increase in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	$ 21,000	$ --	$ 21,000
Income Taxes:			
Individual	3,065,000	--	3,065,000
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	10,800	106,800
Other Taxes	141,000	--	141,000
Total Taxes	$6,322,800	$ 10,800	$6,333,600
Other Revenues:			
Interest	$ 7,400	$ --	$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	51,500	--	51,500
Total Other Revenues	($ 31,400)	$ --	($ 31,400)
Total Receipts	$6,291,400	$ 10,800	$6,302,200

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

	FY 2014	FY 2015	FY 2016	FY 2017
State General Fund	$12,150,000	$12,330,000	$12,520,000	$12,700,000

To formulate these estimates, the Department of Revenue reviewed data on the tobacco products tax. The Department estimates that the tax increase would generate $9,670,000 in additional State General Fund revenues in FY 2013 and the one-time inventory tax would generate $1,130,000 in state General Fund revenues in FY 2013. Therefore, the Department of Revenue estimates that the bill would increase State General Fund revenues in FY 2013 by a total of $10.8 million ($9,670,000 for the tax increase plus $1,130,000 for the one-time inventory tax). The estimate includes a lag in the collection of new revenues in FY 2013 due to the price increase. Generally, a significant tax increase causes consumers to modify their usage and purchasing habits in the short term, resulting in less revenue being collected in the year the tax is put into effect than the rate increase would generate.

The Department of Revenue indicates SB 462 would require administrative costs to implement the bill, including form changes and the costs associated with collecting and processing the inventory tax on tobacco products. However, at the time this fiscal note was prepared, the Department of Revenue was unable to estimate the administrative costs associated with this bill. If the Department determines that the costs associated with implementing the bill cannot be absorbed within existing resources, a revised fiscal note will be prepared. Any fiscal effect associated with SB 462 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue