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Meeting of the House Tax Committee
Testimony for HB 2306
by Richard Carlson, Legislative Liaison for the Kansas Department of Revenue

Good afternoon Chairman Kleeb and members of the committee.

As most of the members of the committee are aware, there are two bills which in tandem comprise the Governors tax package House bill 2307 which levels out and stabilizes the future income tax rates and sets up the 102 percent and 103 percent ratchets to fund a Budget Stabilization Fund and a Tax Reduction Fund. It also includes the two year acceleration of the itemized income deductions for mortgage interest and property tax, plus the amnesty provision. House Bill 2307 increases revenues for the 2016 and 2017 fiscal years, $103.2 million and $108.5 million respectively, for a two year total of $211.7 million. House bill HB 2307 increases revenues about one-half of the two tax bills.

House bill 2306, the bill we are holding the hearing on today, increases the cigarette and liquor taxes. The bill proposes to increase the tax on cigarettes July 1, 2015 from .79 cents per pack to $2.29 per pack. Included in the bill is an increase in the wholesale tax from 10 percent to 25 percent on tobacco products. The total increase in revenues from the cigarette and tobacco products is $80.8 million in FY 2016 and $76.2 million in FY 2017.

The second part of HB 2306 concerns the increase in liquor taxes and is the subject of today's hearing.

The Alcoholic Beverage tax increases from 8 percent to 12 percent upon the gross receipts from the retail sale of liquor, microbreweries, micro distilleries or farm wineries and the sale of alcoholic liquor or cereal malt beverage by distributors to clubs, drinking establishments, public venues or caterers in Kansas. Table 1 attached is a comparative analysis of all the states. This additional tax increases revenues from liquor is $27.1 million in FY 2016 and $27.9 million in FY 2017.

Attached to my testimony is chart A showing the revenue generated by the liquor tax in each fiscal year. It also includes cigarettes and tobacco.

Chart B illustrates gallonage taxes of our surrounding states and in the next paragraph show how we compare to the U.S. medium tax.

For your information we did not propose an increase in Liquor, wine, beer gallonage tax. The present gallonage tax on Liquor is $2.50/gal. Well below the U.S. medium of $3.75/gal.

The gallonage tax on wine is $0.30/gal., while the U.S. medium is $0.72/gal.

The Kansas gallonage tax on Beer is $0.18/gal., while the U.S. medium is $0.20/gal.

Again no tax increase was requested on gallonage alcohol, I have shown the present rates only to show where we stand compared to the U.S. medium.

In summary, as we begin the process of balancing the budget, you will be inundated with many different proposals from within and outside your legislative body. There will be ideas of what expenditures need to be reduced and there will be ideas of many different revenues that can increase revenues.

Under the constitution the Governor is charged with presenting the legislature a balanced budget. Taken in its totality the Governors expenditures and the two tax bills (HB2306 & HB2307) will generate the revenues to balance the budget.

I fully realize and appreciate your obligation to legislate and work out a balanced budget to present to the Governor for his signature.

Lowering the tax rates on productivity (income taxes) on individuals and flow-through business income has resulted in many more Kansas jobs and one of the lowest unemployment rates (4.2%) in the country. I believe it is much more important for our friends and neighbors to be working and providing for their families, than it is to take more of their money and grow the government at their expense.

Consumption tax increases do less harm to the growth of the economy than increased taxes on productivity. While increasing taxes on cigarettes and liquor may not be popular among those who smoke and/or consume alcohol, it is one of a very few consumption taxes on a product that is most discretionary for the consumer.

As in the past as we move through the next few weeks in the session we will be able to see some firming up of the expenditures of the state and as the committee process works the better ideas will begin taking shape, projections will be made and the formulation of a plan will emerge. It will not be easy, there will be hard choices, but it will happen.

We look forward to working with you over the next several months.

I have brought with me other KDOR officials to help answer specific questions.

I would be happy to answer questions at the appropriate time.

Thank you

Chart A

	Current	New	Increase
Cigarettes	$ 0.79	$ 2.29	$ 1.50
Tobacco	10%	25%	15%
Liquor	8%	12%	4%

All go into effect on July 1, 2015
Inventory tax on cigs and tob paid in FY 2016

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Cigarettes	$71.91	$65.77	$65.05	$64.33	$63.62
Tobacco	$8.90	$10.40	$10.68	$10.97	$11.26
Liq Enforce	$27.05	$27.88	$28.30	$28.72	$29.16
	$107.86	$104.05	$104.03	$104.02	$104.04

Inventory tax
Cigarettes $ 17.41
Tobacco $ 0.70

Dollars are in millions

chart B

Comparison of Kansas and Selected States, Various Tax Rates - January 1, 2013

	Beer Per Gallon	Wine Per Gallon	Cigarette Per Pack	Motor Fuel Per Gallon
Colorado	$0.08	$0.32	$0.84	$0.22
Iowa	$0.19	$1.75	$1.36	$0.22
Kansas	**$0.18**	**$0.30**	**$0.79**	**$0.25**
Missouri	$0.06	$0.42	$0.17	$0.173
Nebraska	$0.31	$0.95	$0.64	$0.255
Oklahoma	$0.40	$0.72	$1.03	$0.17

Source: 2013 Facts and Figures How Does Your State Compare? Www.taxfoundation.org

TABLE 1

10-Jun-14

State Alcohol Excise Tax Rates 2014

State	Liquor			Wine			Beer		
	Tax Rate ($ per gallon)	Sales tax applied?	Other taxes	Tax Rate ($ per gallon)	Sales tax applied?	Other taxes	Tax Rate ($ per gallon)	Sales tax applied?	Other taxes
Alabama	[1]	Yes		1.70	Yes	$0.26/gallon local; over 14% -- $9.16/gallon	0.53	Yes	$0.52/gallon statewide tax
Alaska	12.80	n/a	Under 21% -- $2.50/gallon	2.50	n/a		1.07	n/a	
Arizona	3.00	Yes		0.84	Yes	Over 24% -- $4.00/gallon	0.16	Yes	
Arkansas	2.50	Yes	Under 5% -- $0.50/gallon, under 21% -- $1.00/gallon $0.20/case and 3% off- 14% on-premise retail taxes	0.75	Yes	Under 5% -- $0.25/gallon; $0.05/case; 3% off- and 10% on-premise retail tax	0.23	Yes	3% off- 10% on-premise tax
California	3.30	Yes	Over 50% - $6.60/gallon	0.20	Yes	Sparkling wine -- $0.30/gallon	0.20	Yes	
Colorado	2.28	Yes		0.28	Yes		0.08	Yes	
Connecticut	5.40	Yes	Under 7% -- $2.46/gallon	0.72	Yes	Over 21% and sparkling wine -- $1.80/gallon	0.24	Yes	
Delaware	3.75	n/a	Equal or under 25% -- $2.30/gallon	0.97	n/a		0.16	n/a	
Florida	6.50	Yes	Under 17.259% -- $2.25/gallon, over 55.780% -- $9.53/gallon; 6.67¢/ounce on-premise retail tax	2.25	Yes	Over 17.259% -- $3.00/gallon; sparkling wine -- $3.50/gallon	0.48	Yes	
Georgia	3.79	Yes	$0.83/gallon local tax	1.51	Yes	Over 14% -- $2.54/gallon; $0.83/gallon local tax	0.32	Yes	$0.53/gallon local tax
Hawaii	5.98	Yes		1.38	Yes	Sparkling wine -- $2.12/gallon; wine coolers -- $0.85/gallon	0.93	Yes	$0.54/gallon draft beer
Idaho	[1]	Yes		0.45	Yes		0.15	Yes	Over 4% -- $0.45/gallon
Illinois	8.55	Yes	Under 20% -- $1.39/gallon $2.68/gallon in Chicago and $2.00/gallon in Cook County	1.39	Yes	Over 20% -- $8.55/gallon; $0.36-$0.89/gallon in Chicago and $0.16-$0.30/gallon in Cook County	0.231	Yes	$0.29/gallon in Chicago and $0.06/gallon in Cook County
Indiana	2.68	Yes	Under 15% -- $0.47/gallon	0.47	Yes	Over 21% -- $2.68/gallon	0.115	Yes	
Iowa	[1]	Yes		1.75	Yes	Under 5% -- $0.19/gallon	0.19	Yes	
Kansas	2.50	--	8% off- and 10% on-premise retail tax	0.30	--	Over 14% -- $0.75/gallon; 8% off- and 11% on-premise retail tax	0.18	--	Over 3.2% -- 8% off- and 10% on-premise, under 3.2% -- 4.23% sales tax
Kentucky	1.92	Yes	Under 6% -- $0.25/gallon $0.05/case and 11% wholesale tax	0.50	Yes	11% wholesale tax	0.08	Yes*	11% wholesale tax. *General sales tax applies to on-premise sales only
Louisiana	2.50	Yes		0.11	Yes	14% to 24% -- $0.23/gallon, over 24% and sparkling wine -- $1.59/gallon	0.32	Yes	$0.048/gallon local tax
Maine	[1]	Yes		0.60	Yes	Over 15.5% -- sold through state stores; sparkling wine -- $1.25/gallon; 7% on-premise sales tax	0.35	Yes	7% on-premise sales tax
Maryland	1.50	Yes		0.40	--	9% sales tax	0.09	--	9% sales tax; $0.2333/gallon tax in Garrett County
Massachusetts	4.05	Yes	Under 15% -- $1.10/gallon, over 50% -- $4.05/proof gallon 0.57% on private club sales	0.55	Yes	Sparkling wine -- $0.70/gallon	0.11	Yes	0.57% on private club sales
Michigan	[1]	Yes		0.51	Yes	Over 16% -- $0.76/gallon	0.20	Yes	
Minnesota	5.03	No	$0.01/bottle (except miniatures) and 9% sales tax	0.30	--	14% to 21% -- $0.95/gallon, under 24% and sparkling wine -- $1.82/gallon, over 24% -- $3.52/gallon; $0.01/bottle (except miniatures) and 9% sales tax	0.15	--	under 3.2% -- $0.077/gallon; 9.0% sales tax
Mississippi	[1]	Yes		0.35	Yes	Sparkling wine and champagne -- $1.00/gallon	0.4268	Yes	
Missouri	2.00	Yes		0.42	Yes		0.06	Yes	
Montana	[1]	n/a		1.06	n/a	Over 16% - sold through state stores	0.14	n/a	
Nebraska	3.75	Yes		0.95	Yes	Over 14% -- $1.35/gallon	0.31	Yes	
Nevada	3.60	Yes	5%-14% -- $0.70/gallon, 15%-22% -- $1.30/gallon.	0.70	Yes	14% to 22% -- $1.30/gallon, over 22% -- $3.60/gallon	0.16	Yes	
New Hampshire	[1]	n/a		[4]	n/a		0.30	n/a	
New Jersey	5.50	Yes		0.875	Yes		0.12	Yes	
New Mexico	6.06	Yes		1.70	Yes		0.41	Yes	
New York	6.44	Yes	Under 24% -- $2.54/gallon Additional $1.00/gallon in New York City	0.30	Yes		0.14	Yes	Additional $0.12/gallon in New York City
North Carolina	[1]	Yes [2]		1.00	Yes	Over 17% -- $1.11/gallon	0.6171	Yes	
North Dakota	2.50	--	7% state sales tax	0.50	--	Over 17% -- $0.60/gallon; 7% state sales tax	0.16	--	7% state sales tax; bulk beer $0.08/gallon
Ohio	[1]	Yes		0.32	Yes	14% to 21% -- $1.00/gallon; vermouth -- $1.10/gallon; sparkling wine -- $1.50/gallon	0.18	Yes	
Oklahoma	5.56	Yes	13.5% on-premise	0.72	Yes	Sparkling wine -- $2.08/gallon; 13.5% on-premise tax	0.40	Yes	Under 3.2% -- $0.36/gallon; 13.5% on-premise tax
Oregon	[1]	n/a		0.67	n/a	Over 14% -- $0.77/gallon	0.08	n/a	
Pennsylvania	[1]	Yes		[4]	Yes		0.08	Yes	
Rhode Island	5.40	Yes		1.40	Yes	Sparkling wine -- $0.75/gallon	0.11	Yes	$0.04/case wholesale tax
South Carolina	2.72	Yes	$5.36/case and 9% surtax; additional 5% on-premise tax	0.90	Yes	$0.18/gallon additional tax	0.77	Yes	

South Dakota	3.93	Yes	Under 14% – $0.93/gallon; 2% wholesale tax	0.93	Yes	14% to 20% – $1.45/gallon, over 21% and sparkling wine – $2.07/gallon; 2% wholesale tax	0.27	Yes	
Tennessee	4.40	Yes	15% on-premise; under 7% – $1.10/gallon	1.21	Yes	15% on-premise tax	1.15	Yes	
Texas	2.40	Yes	14% on-premise and $0.05/drink on airline sales	0.204	Yes	Over 14% – $0.408/gallon, sparkling wine – $0.516/gallon; 14.95% on-premise tax; $0.05/drink on airline sales	0.20	Yes	14.95% on-premise tax; $0.05/drink on airline sales
Utah	[1]	Yes		[4]	Yes		0.41	Yes	Over 3.2% – sold through state store
Vermont	[1]	No	10% on-premise sales tax	0.55	Yes	Over 16% – sold through state store; 10% on-premise sales tax	0.265	Yes	Over 6% – $0.55; 10% on-premise sales tax
Virginia	[1]	Yes		1.51	Yes	Under 4% – $0.2565/gallon, over 14% – sold through state store	0.26	Yes	
Washington [3]	14.27	--	$9.24/gallon on-premise; 20.5% retail sales tax, 13.7% sales tax on-premise	0.87	Yes	Over 14% - $1.72/gallon	0.26	Yes	
West Virginia	[1]	Yes		1.00	Yes	5% local tax	0.18	Yes	
Wisconsin	3.25	Yes	$0.11/gallon administrative fee	0.25	Yes	Over 14% – $0.45/gallon	0.06	Yes	
Wyoming	[1]	Yes		[4]	Yes		0.02	Yes	
Dist. of Columbia	1.50	--	9% off- and on-premise sales tax	0.30	--	Over 14% – $0.40/gallon; sparkling wine – $0.45/gallon; 9% off- and 10% on-premise sales tax	0.09	Yes	9% off- and 10% on-premise sales tax
U.S. Median	3.75			0.72			0.2		

[1] In 17 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, price mark-ups, and net liquor profits.
[2] General sales tax applies to on-premise sales only.
[3] Washington privatized liquor sales effective June 1, 2012.
[4] All wine sales are through state stores. Revenue in these states is generated from various taxes, fees, price mark-ups, and net profits.

Source: Federation of Tax Administrators, January 2014.
http://www.taxadmin.org/fta/rate/liquor.pdf
http://www.taxadmin.org/fta/rate/wine.pdf
http://www.taxadmin.org/fta/rate/beer.pdf