



Nick Jordan, Secretary

Sam Brownback, Governor

May 4-5th, 2015
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.

Much of my testimony will remain the same as yesterday and rather than go through all of yesterday's testimony, I will leave that for for you to read later. Today's testimony will have updated charts on cigarette and tobacco products.

As I stated yesterday, 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% and 103% ratchets to fund a Budget Stabilization Fund and a Tax Reduction Fund. It also includes the two year acceleration of the 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.

The first part of HB 2306 concerns the increase in Cigarette and Tobacco products taxes and is the subject of today's hearing.

House bill 2306, 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.

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

Chart B is a comparison of Kansas and Selected area states showing the tax on cigarettes per pack in the third column.

Chart C show state cigarette excise tax rates and state rankings as of December, 2014. Kansas would be between the 11th and 12th highest at \$2.29 per pack.

The question was asked several days ago, why the particular amount of \$1.50 increase was used. For the same reasons you, the legislature, will be looking at in the coming weeks as you narrow down through the Appropriations process what the state's expenditures will be and then focusing on the necessary revenues to close the gap, if any, is needed to make the constitutionally required balanced budget.

The last page on my testimony for today is a copy of KLRDs' run of revenues and expenditures and ending ending balances based on the submitted Governors budget.

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 taxes that can increase revenues.

Under the constitution the Governor is charged with presenting the legislature a balanced budget. Taken in its totality the Governor's expenditures and the two tax bills (HB2306 & HB2307) will generate the revenues to balance the budget as of January, 2015. Depending on the final budget coming up the increase in revenues may need to be substantially more.

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

As much as I dislike presenting any tax increase on the taxpayers of Kansas to you, I also believe we should be consistent and select a tax increase that will best serve all Kansans in growing the economy, jobs and increasing working Kansans average income.

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 discretionary for the consumer.

There are a number of sales tax exemptions that may well be considered as with other possible increases or changes in different consumption taxes. I urge the committee to deliberate carefully over the next few weeks all the proposals put before you and keeping in mind the effects of each of the proposals and what each will do in regards to growing the Kansas economy and jobs in the private sector.

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, projected runs will be made by research and the formulation of a plan will emerge. It will not be easy, there will be hard choices, but it will happen.

I 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.

Chart A

In terms of a fiscal note- The FY 2016 amounts include the inventory tax for cigarettes and tobacco.

	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
Total	\$107.86	\$104.05	\$104.03	\$104.02	\$104.04

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



STATE CIGARETTE EXCISE TAX RATES & RANKINGS

Overall All States' Average: \$1.54 per pack
 Major Tobacco States' Average: 48.5 cents per pack
 Other States' Average: \$1.68 per pack

State	Tax	Rank
Alabama	\$0.425	47th
Alaska	\$2.00	12th
Arizona	\$2.00	12th
Arkansas	\$1.15	30th
California	\$0.87	33rd
Colorado	\$0.84	34th
Connecticut	\$3.40	4th
Delaware	\$1.60	22nd
DC	\$2.50	11th
Florida	\$1.339	27th
Georgia	\$0.37	48th
Hawaii	\$3.20	5th
Idaho	\$0.57	42nd
Illinois	\$1.98	17th
Indiana	\$0.995	32nd
Iowa	\$1.36	26th
Kansas	\$0.79	36th
Kentucky	\$0.60	40th

State	Tax	Rank
Louisiana	\$0.36	49th
Maine	\$2.00	12th
Maryland	\$2.00	12th
Massachusetts	\$3.51	2nd
Michigan	\$2.00	12th
Minnesota	\$2.90	7th
Mississippi	\$0.68	37th
Missouri	\$0.17	51st
Montana	\$1.70	19th
Nebraska	\$0.64	38th
Nevada	\$0.80	35th
New Hampshire	\$1.78	18th
New Jersey	\$2.70	9th
New Mexico	\$1.66	21st
New York	\$4.35	1st
North Carolina	\$0.45	45th
North Dakota	\$0.44	46th
Ohio	\$1.25	29th

State	Tax	Rank
Oklahoma	\$1.03	31st
Oregon	\$1.31	28th
Pennsylvania	\$1.60	22nd
Rhode Island	\$3.50	3rd
South Carolina	\$0.57	42nd
South Dakota	\$1.53	24th
Tennessee	\$0.62	39th
Texas	\$1.41	26th
Utah	\$1.70	19th
Vermont	\$2.75	8th
Virginia	\$0.30	50th
Washington	\$3.025	6th
West Virginia	\$0.55	44th
Wisconsin	\$2.52	10th
Wyoming	\$0.60	40th
Puerto Rico	\$2.23	NA
Guam	\$3.00	NA
Northern Marianas	\$1.75	NA

Table shows all cigarette tax rates in effect by January 1, 2015 (MN inflation adjustment on 1/1/2015). Since 2002, 47 states, DC, and several U.S. territories have increased their cigarette tax rates more than 110 times. The states in bold type have not increased their cigarette tax since 2005 or earlier. Currently, 30 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of \$1.00 per pack or higher; 15 states, DC, and Guam have cigarette tax rates of \$2.00 per pack or higher; six states and Guam have cigarette tax rates of \$3.00 per pack or higher; and one state (NY) has a cigarette tax rate more than \$4.00 per pack. Tobacco states are KY, VA, NC, SC, GA, and TN. States' average includes DC, but not Puerto Rico, other U.S. territories, or local cigarette taxes. The median tax rate is \$1.36 per pack. AK, MI, MN, MS, TX, and UT also have special taxes or fees on brands of manufacturers not participating in the state tobacco lawsuit settlements (NPMs).

The highest combined state-local tax rate is \$6.16 in Chicago, IL, with New York City second at \$5.85 per pack. Other high state-local rates include Evanston, IL at \$5.48 and Anchorage, AK at \$4.39 per pack. For more on local cigarette taxes, see: <http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf>.

Federal cigarette tax is \$1.01 per pack. From the beginning of 1998 through 2002, the major cigarette companies increased the prices they charge by more than \$1.25 per pack (but also instituted aggressive retail-level discounting for competitive purposes and to reduce related consumption declines). In January 2003, Philip Morris instituted a 65-cent per pack price cut for four of its major brands, to replace its retail-level discounting and fight sales losses to discount brands, and R.J. Reynolds followed suit. In the last several years, the major cigarette companies have increased their product prices by almost \$1.00 per pack. **Nationally, estimated smoking-caused health costs and lost productivity totals \$19.16 per pack.**

The average price for a pack of cigarettes nationwide is roughly \$6.18 (including statewide sales taxes but not local cigarette or sales taxes, other than NYC's \$1.50 per pack cigarette tax), with considerable state-to-state differences because of different state tax rates, and different manufacturer, wholesaler, and retailer pricing and discounting practices. AK, DE, MT, NH & OR have no state retail sales tax at all; OK has a state sales tax, but does not apply it to cigarettes; MN & DC apply a per-pack sales tax at the wholesale level; and AL, GA & MO (unlike the rest of the states) do not apply their state sales tax to that portion of retail cigarette prices that represents the state's cigarette excise tax.

Campaign for Tobacco-Free Kids, December 22, 2014 / Ann Boonn

For additional information see the Campaign's website at http://www.tobaccofreekids.org/what_we_do/state_local/taxes/.

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2013; media reports; state revenue department websites.

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Includes Governor's Revenue and Expenditure Recommendations
Includes Governor's Budget Stabilization and Tax Reduction Funds

STATE GENERAL FUND PROFILE
FY 2013-FY 2020
(Dollars in Millions)

	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017
Beginning Balance					
Consensus Revenue Estimate (April 17, 2014)	\$ 502.9	\$ 709.3	\$ 379.8	\$ 69.9	\$ 83.9
Highway fund transfer	6,341.1	5,653.2	5,768.7	5,789.5	5,789.9
Governor's Income Tax Plan	-	-	158.5	132.3	132.8
Governor's Cigarette, Tobacco, & Liquor Tax Plan	-	-	-	103.2	108.5
Governor's Revenue Adjustments	-	-	-	107.9	104.1
Total Available Revenue	\$ 6,844.0	\$ 6,362.5	\$ 6,419.6	\$ 6,469.4	\$ 6,583.3
Expenditures					
Estimated State General Fund Expenditures Shifted from FY 2014	\$ 6,134.8	\$ 5,982.7	\$ 6,300.9	\$ 6,408.4	\$ 6,419.4
Governor's Expenditure Allotments	-	-	24.1	-	-
Human Services Caseloads	-	-	(62.7)	-	-
School Finance General State Aid Adjustments	-	-	46.2	-	-
KPERs State and School	-	-	53.1	-	-
Governor's Expenditure Adjustments	-	-	5.6	-	-
Total Adjusted Expenditures	-	-	(17.5)	-	-
Ending Balance	6,134.8	5,982.7	6,349.7	6,408.4	6,419.4
Governor's Budget Stabilization Fund	\$ 709.3	\$ 379.9	\$ 69.9	\$ 61.0	\$ 163.9
Governor's Tax Reduction Fund	-	-	-	22.9	58.0
Adjusted Ending Balance	\$ 709.3	\$ 379.8	\$ 69.9	\$ 83.9	\$ 250.6
Ending Balance as a Percentage of Expenditures	11.6%	6.3%	1.1%	1.0%	2.6%
Receipts in Excess of Approved Expenditures	\$ 206.3	\$ (329.5)	\$ (309.9)	\$ (8.9)	\$ 80.0

Profile 15-007