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MEMORANDUM

To: House Committee on Taxation
From: Scott Wells
Date: February 16, 2017
Subject: House Bill 2315

House Bill 2315 makes changes to income tax, alcohol, cigarette and tobacco products tax and various filing fees, as proposed by the Governor. Income tax changes include freezing current income tax rates at 2.7% and 4.6%, respectively. Additionally, beginning in tax year 2018 income taxes will begin to be assessed against passive income received from rents and royalties that are reported on federal schedules C, E and F and the taxpayer's form 1040 federal income tax return. Finally, the income tax credit for contributions to a community service organization will sunset at the end of tax year 2017.

Various taxes levied against alcohol, cigarettes and other tobacco products will increase beginning July 1, 2017. The rate of tax on cigarettes will increase \$1.00 on each pack of 20 cigarettes to a total of \$2.29 per pack. The rate of tax on other tobacco products will increase to 20% of the wholesale sales price and will include an inventory tax of 10% on all inventories of tobacco products on hand at each distributor at 12:01 a.m. on July 1, 2017. Discounts and reimbursements provided to distributors have also been adjusted to reflect the increased tax rates on cigarettes and tobacco products. The liquor enforcement tax has also been increased from 8% to 16% of gross receipts from the sale of alcoholic liquor or cereal malt beverage.

The final provisions of the bill concern an increase in annual filing fees for for-profit business entities. Under House bill 2315, the fees for such filings will increase from \$40 per year to \$200 per year. Members of an LLC and partners of certain limited partnerships, who have an ownership interest of at least 5%, will also be required to submit the \$200 fee.