

STATE OF KANSAS

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GOVERNOR JEFF COLYER, M.D.
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

February 16, 2018

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 376 by Senate Committee on Public Health and Welfare

In accordance with KSA 75-3715a, the following fiscal note concerning SB 376 is respectfully submitted to your committee.

SB 376 would increase the state's cigarette and tobacco products taxes on July 1, 2018. The bill would increase the cigarette tax to \$2.79 a pack (from \$1.29 a pack) and increase the tobacco products tax to 65.0 percent of the wholesale price (from 10.0 percent). The bill would establish an inventory tax for all cigarette and tobacco products on hand as of July 1, 2018. The inventory tax would be \$1.50 per pack for cigarettes and would be due on October 31, 2018. The inventory tax would be 55.0 percent of the wholesale sales price for tobacco products on hand as of July 1, 2018, and the inventory tax would be due on July 31, 2018.

The bill would also create the Cigarette and Tobacco Cessation Fund to be administered by the Kansas Department of Health and Environment (KDHE) to promote the cessation of cigarette and tobacco usage. The first \$5.0 million in cigarette and tobacco products tax revenue collected each year would be deposited in the Cigarette and Tobacco Cessation Fund.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	\$100,360,000	\$105,360,000
Expenditure	--	--	\$19,850	\$5,019,850
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 376 would increase state revenues by \$105,360,000 in FY 2019. Of that total, the State General Fund is estimated to increase by

\$100,360,000, while the Cigarette and Tobacco Cessation Fund is estimated to increase by \$5.0 million. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY2023</u>
State General Fund	\$101,450,000	\$100,150,000	\$ 98,980,000	\$ 97,760,000
C&T Cessation Fund	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
	\$106,450,000	\$105,150,000	\$103,980,000	\$102,760,000

The specific changes in revenues from the tax law changes for FY 2019 and FY 2020 are shown in the following table:

	<u>FY 2019</u>	<u>FY 2020</u>
Cigarette Tax to \$2.79 per pack	\$ 61,180,000	\$ 71,050,000
Cigarette Inventory Tax	14,780,000	--
Tobacco Products Tax to 65.0 Percent	28,300,000	35,400,000
Tobacco Products Inventory Tax	<u>1,100,000</u>	<u>--</u>
Total Tax Law Changes	\$105,360,000	\$106,450,000

The Department indicates that the bill would require \$19,850 from the State General Fund in FY 2019 for administrative costs to implement the bill, including changes to forms and publications, notification to taxpayers, and internal accounting changes to ensure that the first \$5.0 million of cigarette and tobacco products tax revenue is deposited in the Cigarette and Tobacco Cessation Fund.

KDHE indicates that the bill would provide \$5.0 million in cigarette and tobacco products tax revenue to promote the cessation of cigarette and tobacco usage. KDHE indicates that it would use the additional money to hire 1.00 new FTE position to work with KDHE media vendors to promote the cessation of cigarette and tobacco usage with paid television, radio, print, or digital advertising at the state and local levels. The additional funding would also allow KDHE to work with health care professionals and other partners to fund health promotion activities. Any fiscal effect associated with SB 376 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
 Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
 Dan Thimmesch, Health & Environment