

Fiscal Estimate - 2013 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 13-0574/1	Introduction Number AB-0481
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Description
 Minimum tax on tobacco products, placement of cigarettes or tobacco products by retailers, and providing a penalty

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input checked="" type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget
<input type="checkbox"/> Indeterminate	<input type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Decrease Existing Appropriations		
<input type="checkbox"/> Create New Appropriations		

Local:

<input type="checkbox"/> No Local Government Costs	<input checked="" type="checkbox"/> Increase Revenue	5. Types of Local Government Units Affected
<input type="checkbox"/> Indeterminate	<input type="checkbox"/> Decrease Revenue	<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities
1. <input type="checkbox"/> Increase Costs	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Counties <input type="checkbox"/> Others
2. <input type="checkbox"/> Decrease Costs	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
3. <input type="checkbox"/> Increase Revenue	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
4. <input type="checkbox"/> Decrease Revenue	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

Fund Sources Affected	Affected Ch. 20 Appropriations
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 12/23/2013

LRB Number	13-0574/1	Introduction Number	AB-0481	Estimate Type	Original
Description Minimum tax on tobacco products, placement of cigarettes or tobacco products by retailers, and providing a penalty					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the excise tax rate imposed on the sale of most tobacco products is 71% of the manufacturer's list price to distributors. Cigars are subject to the tobacco products tax, but capped at \$0.50 per cigar. Moist snuff is taxed at a rate of 100% of the manufacturer's list price to distributors.

Under the bill, the tax rate on tobacco products would be the greater of 84% of the manufacturer's list price (100% for moist snuff) or the alternative rate specified for each of the following tobacco products categories.

Cigars: Under the bill, the tax on a pack of four cigars would be the greater of 84% of the manufacturer's list price or the amount of tax imposed on a pack of cigarettes (\$2.52). Packs of cigars of other quantities would be taxed proportionately (\$2.52/four cigars). The bill also stipulates that no cigars with a wholesale price of less than \$1 per cigar may be sold in a package containing fewer than 5 such cigars.

The tobacco products tax on cigars is estimated to reach \$15.5 million in FY15. Assuming each cigar is subject to the \$0.50 tax, it is estimated that Wisconsin vendors will sell 30.9 million cigars in FY15. It is assumed that the average cost of a cigar is \$2.00, 20% of cigars consumed are taxed at the rate of \$2.52 per a pack of four, and that the remaining cigars are taxed at the rate of 84% of the wholesale price. Under these assumptions, FY15 cigar tax revenues are estimated to increase by \$10.5 million.

Smokeless Tobacco: Under the bill, smokeless tobacco products that consist of loose tobacco, including moist snuff, would be taxed at the greater of 100% of the list price and an amount equal to the cigarette tax imposed on a pack of 20 cigarettes.

The list price of a typical can of moist snuff weighting 1.2 ounces amounts to \$2.64. The current tax rate on 1.2 ounces of smokeless tobacco is greater than the tax rate on cigarettes at \$2.52. Since the higher tax rate is already imposed on smokeless tobacco products, the bill will not impact tobacco products tax revenues attributable to such products.

Other Tobacco Products: Under the bill, any loose tobacco that is intended for smoking would be taxed at the greater of 84% of the list price or an amount equal to the cigarette tax imposed on a pack of 20 cigarettes per 0.65 ounces of loose tobacco. Single use and other tobacco products would be taxed at the greater of 84% of the list price and the tax imposed on a pack of 20 cigarettes for each unit (single use product) or container (other tobacco products).

The department does not have information which would allow a separate fiscal impact for each category within other tobacco products. Total other tobacco products tax collections are projected to reach \$9.3 million in FY15, out of which the tax on brown cigarettes amounts to \$4.7 million. At the current tax rate of 71%, the \$4.6 million difference indicates \$6.5 million in taxable sales of loose tobacco. Assuming a 15% retailer markup, sales of other tobacco products are expected to reach \$7.5 million. Assuming an average price for a pound of loose tobacco of \$18.0, loose tobacco sales are expected to reach 6.7 million ounces. A tax rate of \$3.88/ounce of loose tobacco (\$2.52 for 0.65 ounce) would generate \$25.9 million in tax revenues compared to \$5.5 million at 84% of list price rate.

The increase in the tax rate from the current 71% of manufacturer's price to \$2.52 per 0.65 per ounce will significantly affect the price of other tobacco products, with the tax increasing by 458%. As a result of such a large increase in price, many consumers will switch to alternatives. It is assumed that this increase in price will lead to a 60% reduction in the quantity of other tobacco product purchased, resulting in a revenue increase of \$5.7 million.

DEFINITION OF CIGARETTE

The current law definition of cigarette does not include little cigars (brown cigarettes), which are often sold in packs of 20 and taxed at the rate of 71% of the wholesale price. Under the bill, a cigarette is defined as any roll of tobacco weighing not more than 4.5 pounds per thousand that is likely to be purchased or consumed by individuals as a cigarette regardless of how it is packaged or labeled. The proposal would increase the tax rate on brown cigarettes from 71% of the wholesale price to \$2.52 per pack.

Based on information published by the Minnesota Department of Revenue, brown cigarette production is approximately 3% of total cigarette production. Assuming the rate is the same in Wisconsin, 6.6 million packs of brown cigarettes would be consumed in FY2015. Based on information from wholesalers, the average manufacturer's list price of a pack of brown cigarettes is approximately \$1.00 per pack. The 71% tax imposed would result in a retail price of at least \$1.71 (not including markup). Increasing the tax from the 71% of manufacturer's list price to \$2.52 per pack increases the price of brown cigarettes from at least \$1.71 to \$3.52 (plus retail markup) per pack, an increase of 106%.

It is assumed that as a result of reclassification of brown cigarettes to cigarettes and a corresponding tax increase to \$2.52 per pack, brown cigarette consumption would decline by 30% due to consumers seeking alternatives and cessation of smoking. Under these assumptions, consumers would purchase 2.0 million fewer packs of brown cigarette packs in FY15.

Under current law, tobacco products tax revenues attributable to brown cigarettes are estimated to reach \$4.7 million in FY2015. As a result of the reclassification of brown cigarettes from tobacco products to cigarettes included in the bill, cigarette tax revenues are expected to increase by \$11.7 million, yielding a net tax increase of \$7.0 million (\$11.7 million - \$4.7 million).

INVENTORY TAX

Under current law, an inventory tax is imposed on cigarettes in the distribution chain when a cigarette tax increase occurs. The tax is imposed on all permittees and retailers who possess stamped cigarettes held for resale on which the cigarette tax was paid. The inventory tax is calculated by multiplying the cigarette tax rate increase by the number of cigarette packs in inventory at the day of the increase.

The bill would impose an inventory tax on tobacco products. The inventory tax would not apply to brown cigarettes, which are included in the definition of cigarette under the bill. Since the tax rate on moist snuff will not change under the bill, the inventory tax would not apply to this product.

In FY10, an inventory tax on cigarettes amounted to \$15.4 million or 2.46% of FY10 cigarette tax revenues. For the purpose of calculating floor tax on tobacco products it is assumed that 2.46% of tobacco products, as measured by estimated FY15 tax revenues, are held in inventory.

Inventory tax for cigars was calculated based on the distribution of cigars between those which pay at the rate of 84% of the wholesale price and the rate of \$2.52 for a pack of four cigars. For FY15 inventory tax is estimated as \$0.9 million for cigars and other tobacco products.

RETAILER RESTRICTIONS

Under current law, a retailer of tobacco products must obtain a license from a municipality in which the sale take place and must comply with certain requirements. The bill creates an additional requirement specifying in-store locations for the placement of cigarettes or tobacco products. The bill also defines various penalties applicable to violations of law by retailers of cigarettes or tobacco products.

REVENUE IMPACT

Under the bill, tobacco products tax revenues will increase by \$11.6 million (\$10.5 million + \$5.7 million - \$4.7 million). In addition, there will be an increase of \$11.7 million in cigarette tax revenues, as brown cigarettes are reclassified as cigarettes. Total FY15 cigarette and tobacco products tax revenues are expected to increase \$23.2 million. In addition, in FY15 there will be one time tobacco products inventory tax of \$0.9 million.

ADMINISTRATIVE COSTS

This bill will not have any significant effect on the Department of Revenue's administrative costs and operations.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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Description Minimum tax on tobacco products, placement of cigarettes or tobacco products by retailers, and providing a penalty			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): One time tobacco product inventory tax of \$0.9 million			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$23,200,000	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$23,200,000	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$23,200,000	\$
Agency/Prepared By		Authorized Signature	Date
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