

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1174-03
Bill No.: SB 220
Subject: Revenue Department; Taxation and Revenue - Income; Tobacco Products
Type: Original
Date: February 26, 2013

Bill Summary: This proposal would submit a proposition to the voters, which would increase the excise tax on cigarettes and reduce personal income taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	0	\$0 or \$12,526,141	\$0 or (\$103,524,718)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0 or \$12,526,141	\$0 or (\$103,524,718)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.011, RSMo - Personal Income Tax Changes:

Officials from the **Department of Revenue (DOR)** assume this proposal would modify the current personal income tax rate schedule to eliminate tax on taxable income under \$1,000 as taxable income is currently defined.

DOR officials assume those provisions would result in a revenue reduction in excess of \$100 million.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted that this proposal would exempt all income up to \$2,000 from individual income tax, would lower the tax on income from \$2,000 to \$3,000 to 1.5%, and would reduce income tax by \$50 for all other taxpayers.

According to tax year 2011 data supplied by the Department of Revenue (DOR)

- * 2,752,097 primary and combined taxpayers reported taxable income above \$3,000. Reducing their tax by \$50 would reduce Total State Revenues by \$137.6 million.
- * 1,119,704 taxpayers reported income below \$2,000, and owed net taxes of \$3.5 million. These would Reduce Total State Revenues by a similar amount.
- * 99,929 taxpayers reported income between \$2,000 and \$3,000 dollars. BAP officials estimate this proposal would provide a \$30 reduction for these taxpayers. This would reduce Total State Revenues by \$3.0 million.
- * This proposal could reduce Total State Revenues by \$143.6 million.

BAP officials assume the University of Missouri - Economic Policy Analysis and Research Center may have a more precise estimate.

ASSUMPTION (continued)

Officials from the **University of Missouri - Economic Policy Analysis and Research Center (EPARC)** provided a simulation of the personal income tax changes which indicated that implementing the changes would reduce Net Tax Due from the baseline estimate of \$4,693.390 to \$4,564.813 million, a reduction of \$128.577 million from the baseline. Therefore, EPARC officials assume the proposal would reduce personal income tax revenue by of \$128.577 million.

Oversight will use the EPARC estimate of revenue reduction for these provisions but since the proposal would submit the changes to the voters, the provisions would only become effective if approved by the voters. The next general election is in November, 2014 and if the voters approve the proposition, the changes would likely become effective for 2015 tax returns which would be filed in 2016 (FY 2016). Accordingly, Oversight will indicate an impact for these provisions of \$0 (no voter approval) to a reduction of \$128.577 million (voter approval) for FY 2016.

Section 149.015, RSMo. - Cigarette Tax Changes:

Officials from the **Department of Revenue (DOR)** assume this proposal would increase the current 8 ½ mills per cigarette excise tax by 2 ½ mills per cigarette for a total of 11 mills per cigarette beginning January 1, 2015; by an additional 2 ½ mills per cigarette for a total of 13 1/2 mills per cigarette beginning January 1, 2017; and by an additional 1 ½ mills per cigarette for a total of 15 mills per cigarette beginning January 1, 2019.

Based upon fiscal year 2012 sales of 536,000,000 stamps, DOR officials assume the proposed increase would generate additional revenue of approximately \$26 million a year with each 5 cent increase and an additional \$15.5 million dollars when the final 3 cent increase goes into effect. These estimates do not take into consideration any reduction in cigarette purchases due to the higher tax rate or other factors.

The revenue generated in this section, less any reduction allowed in section 149.021, would be deposited in the General Revenue Fund; the additional taxes levied would be eliminated under specific conditions outlined in the proposal.

DOR officials noted that the Department would need to make forms changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

ASSUMPTION (continued)

Administrative impact

DOR officials assume the Excise Tax Division would need to notify approximately 120 cigarette wholesalers of each rate change. The estimated cost would be $(120 \times \$0.525) = \63 for each notice for three notices. DOR officials did not indicate any other costs associated with this proposal.

Oversight assumes the notice costs are nominal and could either be accomplished in normal DOR communications with merchants or could be absorbed with existing resources.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$13,633 based on 504 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted that this proposal would phase in an additional cigarette tax of \$0.13 per pack over the next six years.

Based on the calculations in the tables that follow, BAP officials estimated the proposal could increase revenues by about \$64.2 million annually when fully phased in.

Oversight notes that the BAP calculations include an estimated reduction in the number of packs sold, based on academic research which calculated the rate of reduction in sales as per pack cigarette prices increase.

ASSUMPTION (continued)

<u>Year</u>	<u>Tax per Pack (Cents)</u>	<u>Per Pack Price (Assumed)</u>	<u>Number of Packs Sold</u>	<u>Cigarette Tax Revenue</u>	<u>Revenue Increase</u>
FY 2012 (Baseline)	17	\$4.50	521,229,665	\$88,609,043	NA
Year 1	22	\$4.55	516,642,385	\$113,661,325	\$25,052,282
Year 2	27	\$4.60	512,145,058	\$138,279,166	\$49,670,123
Year 3	30	\$4.63	509,488,743	\$152,846,623	\$64,237,580

Officials from the **University of Missouri - Economic Policy Analysis and Research Center (EPARC)** noted that the proposal would increase the excise tax on cigarettes from seventeen cents per pack to twenty-two cents per pack in 2015, to twenty-seven cents per pack in 2017, then to thirty cents per pack in 2019. These additional revenues would be deposited into the General Revenue Fund. EPARC officials estimated that the increase in excise tax on cigarettes to twenty-two cents per pack in 2015 would generate additional revenue of \$26.637 million, the increase in excise tax to twenty-seven cents per pack in 2017 would generate additional revenue of \$53.274 million, and the final increase in excise tax to thirty cents per pack in 2019 would generate additional revenue of \$69.256 million.

Oversight will use the BAP estimate of additional revenues but notes that the increases would become effective on January 1 of 2015, 2017, and 2019. Disregarding reporting and implementation delays, additional revenue could be calculated as follows:

- A. FY 2015 An increase of 2 ½ mills (five cents) would be effective January 1, 2015. The increase would be effective for half of FY 2015. The increase for FY 2015 would be (\$25,052,282 x 50%) = \$12,526,141.
- B. FY 2016 The 2 ½ mill (five cent) increase would be effective the full year. The increase for FY 2016 would be \$25,052,282.

ASSUMPTION (continued)

Oversight also notes that this proposal would submit the cigarette tax changes to the voters; the provisions would only become effective if approved by the voters. The next general election is in November, 2014, and the provisions could become effective for January 1, 2015 if the voters approve the proposition. Accordingly, Oversight will indicate an impact for these provisions of \$0 (no voter approval) to the additional revenue as calculated above.

Bill as a whole

Officials from the **Office of the Secretary of State** (SOS) assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Referendums are submitted to the people at the next general election. Article III section 52(b) of the Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people. If a special election is called to submit a Referendum to a vote of the people, Section 115.063.2 RSMo. requires the state to pay the costs. The cost of the special election has been estimated to be \$7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

ASSUMPTION (continued)

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$2.17 million to publish (an average of \$434,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Public Safety - Division of Alcohol and Tobacco Control** assume the proposal would not fiscally impact their agency.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Additional revenue - DOR</u>			
Cigarette tax Section 149.015, RSMo.	\$0	\$0 or \$12,526,141	\$0 or \$25,052,282
<u>Revenue reduction - DOR</u>			
Personal income tax Section 143.011, RSMo.	<u>\$0</u>	<u>\$0</u>	\$0 or <u>(\$128,577,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or \$12,526,141</u>	<u>\$0 or (\$103,524,718)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct impact to small businesses which sell cigarettes.

FISCAL DESCRIPTION

This proposal would submit a proposition to the voters which would, if approved, reduce personal income taxes and increase the cigarette excise tax.

The first two thousand dollars of Missouri adjusted gross income would be exempt from income tax, and tax rates would be reduced.

The current excise tax on cigarettes of seventeen cents per pack would be increased to to twenty-two cents per pack beginning January 1, 2015, to twenty-seven cents per pack beginning January 1, 2017, and to thirty cents per pack beginning January 1, 2019. The excise tax increases would not apply to inventory of retailers and wholesalers on the day before a tax increase goes into effect.

The Department of Revenue would be required to quit collecting the additional excise taxes if certain tax or fee increase issues appear on a local or statewide ballot, or if any provision of the act is ruled null and void.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Public Safety - Division of Alcohol and Tobacco Control
Department of Revenue
University of Missouri - Economic Policy Analysis and Research Center



Ross Strope
Acting Director
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