

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 5829 SB	<b>Title:</b> Additional cigarette tax	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	2,278,000	2,428,000	4,706,000	4,705,000	4,507,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	165,000	176,000	341,000	342,000	327,000
GF-STATE-State 01 - Taxes 25 - Cigarette Tax	1,668,000	1,983,000	3,651,000	4,406,000	4,892,000
Water Quality-State 01 - Taxes 25 - Cigarette Tax	511,000	616,000	1,127,000	1,391,000	1,567,000
VioRed and DrugEnf-State 01 - Taxes 25 - Cigarette Tax	685,000	825,000	1,510,000	1,855,000	2,085,000
Health Services-State 01 - Taxes 25 - Cigarette Tax	75,235,000	80,781,000	156,016,000	158,212,000	153,568,000
<b>Total \$</b>	80,542,000	86,809,000	167,351,000	170,911,000	166,946,000

### Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.2	0.0	0.1	0.0	0.0
<b>Fund</b>					
GF-STATE-State 001-1	13,900	1,400	15,300	2,800	2,800
<b>Total \$</b>	13,900	1,400	15,300	2,800	2,800

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 1 imposes a cigarette tax of 30 mills (3 cents) per cigarette. That is 60 cents per pack of 20 cigarettes and would increase the total cigarette tax to \$2.025 per pack. The tax revenue is to be distributed as follows:

- 88.4 percent to health service account
- 6.5 percent to general fund
- 2.9 percent to violence reduction and drug enforcement account
- 2.2 percent to water quality account.

Section 2 establishes an effective date of July 1, 2005.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

Assumptions:

- \*the state average retailing price per pack of cigarettes is \$4.05, excluding sales tax;
- \*the retailing percentage mark-up will decline to zero in fiscal year 2006;
- \*and the elasticity will approach -1.1 in fiscal year 2006. (That is to say, for every 10 percent increase in price, there will be a corresponding 11 percent decrease in demand.)

CURRENTLY REPORTING TAXPAYERS (Impact for taxpayers who are known or estimated to be currently paying the tax in question)

Currently reporting taxpayers will pay the additional taxes, as estimated in this fiscal note.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2006 -	\$ 80,542
FY 2007 -	\$ 86,809
FY 2008 -	\$ 85,926
FY 2009 -	\$ 84,985
FY 2010 -	\$ 83,992
FY 2011 -	\$ 82,954

Local Government, if applicable (cash basis, \$000):

FY 2006 -	\$ 697
FY 2007 -	\$ 743
FY 2008 -	\$ 728
FY 2009 -	\$ 713
FY 2010 -	\$ 698
FY 2011 -	\$ 682

## II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

The Department assumes approximately 73 stamping wholesalers and 7,550 retailers will be affected by this legislation.

Due to the emergency effective date of July 1, 2005, the Department will incur costs of approximately \$37,000 in the current 2005 Fiscal Year. This includes staff time to set up financial revenue activity reports; adjust automated systems to implement funding breakdown; update of the stamp sales and process; and printing/postage costs for Special Notices and educational material.

To further implement this legislation, the Department will incur costs of approximately \$15,300 during the 2005-2007 Biennium. Fiscal Year 2006 costs include:

- 1) 0.04 FTEs (rounded) at the Fiscal Tech level (representing 75.5 hrs) to batch and process the floor stock returns.
- 2) 0.02 FTEs (rounded) at the Financial Analyst 1 level (representing 30 hrs) to process Cash Journals and coordinate state treasurer office funding.
- 3) 0.02 FTEs (rounded) at the Financial Analyst 3 level (representing 40 hrs) to maintain and process the financial management cigarette tax system and reconcile collections to stamp orders during conversion period.
- 4) 0.01 FTEs (rounded) at the Financial Analyst 5 level (representing 6 hrs) to prepare financial reports.
- 5) 0.02 FTEs (rounded) at the Office Assistant level (representing 38 hrs) to key returns reporting the tax for in-stock cigarettes.
- 6) \$3,000 for scanning of documents.
- 7) \$5,800 to implement one new expedited rule. This represents staff time, printing, and postage.

The Department will incur ongoing costs of approximately \$1,400 during each of the 2007-09 and 2009-11 Biennia. Ongoing costs relate to FTEs discussed in 1-5 above.

The Department will absorb these costs. However, should this bill and other similar bills pass, the net impact may result in costs above the level the Department can reasonably absorb. In that event, the Department will need additional resources to implement the legislation.

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.2	0.0	0.1	0.0	0.0
A-	6.000	1.000	7.000	2.000	2.000
B-	1.500	300	1,800	600	600
E-	5.400	100	5,500	200	200
J-	1.000		1,000		
<b>Total \$</b>	<b>\$13,900</b>	<b>\$1,400</b>	<b>\$15,300</b>	<b>\$2,800</b>	<b>\$2,800</b>

**III. B - Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

<b>Job Classification</b>	<b>Salary</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>2005-07</b>	<b>2007-09</b>	<b>2009-11</b>
FINANCIAL ANALYST 1	31,032	0.0	0.0	0.0	0.0	0.0
FINANCIAL ANALYST 3	42,588	0.0	0.0	0.0	0.0	0.0
FINANCIAL ANALYST 5	49,380	0.0	0.0	0.0	0.0	0.0
FISCAL TECHNICIAN	27,636	0.0		0.0		
HEARINGS SCHEDULER	31,032	0.0		0.0		
OFFICE ASSISTANT	25,200	0.0		0.0		
RULES MANAGER	69,500	0.0		0.0		
RULES POLICY SPECIALIST	68,600	0.0		0.0		
TAX POLICY SPECIALIST 3	58,656	0.0		0.0		
<b>Total FTE's</b>		0.2	0.0	0.1	0.0	0.0

## Part IV: Capital Budget Impact

NONE.

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

The Department will utilize the expedited rule process to amend WAC 458-20-186-Tax on cigarettes. Persons affected would include wholesalers, retailers, and consumers of cigarettes.