

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 2181 HB	<b>Title:</b> Pipe tobacco excise tax rate
-----------------------------	--

## Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(260,000)	(260,000)	(260,000)	(780,000)	(780,000)	(780,000)	(780,000)	(780,000)	(780,000)
<b>Total \$</b>	(260,000)	(260,000)	(260,000)	(780,000)	(780,000)	(780,000)	(780,000)	(780,000)	(780,000)

## Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.3	152,600	152,600	152,600	.0	0	0	0	.0	0	0	0
Liquor and Cannabis Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
<b>Total \$</b>	<b>0.3</b>	<b>152,600</b>	<b>152,600</b>	<b>152,600</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Liquor and Cannabis Board	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

--

<b>Prepared by:</b> Amy Hatfield, OFM	<b>Phone:</b> (360) 280-7584	<b>Date Published:</b> Final 1/18/2024
---------------------------------------	---------------------------------	---

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 2181 HB	<b>Title:</b> Pipe tobacco excise tax rate	<b>Agency:</b> 140-Department of Revenue
-----------------------------	--	--

## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(19,000)	(19,000)	(56,000)	(56,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		(1,000)	(1,000)	(4,000)	(4,000)
GF-STATE-State 01 - Taxes 26 - Other Tobacco Tax		(240,000)	(240,000)	(720,000)	(720,000)
<b>Total \$</b>		(260,000)	(260,000)	(780,000)	(780,000)

### Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.5	0.3		
GF-STATE-State 001-1	94,900	57,700	152,600		
<b>Total \$</b>	94,900	57,700	152,600		

### Estimated Capital Budget Impact:

NONE

*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.

Legislative Contact: Kristina King	Phone: 60-786-7190	Date: 01/08/2024
Agency Preparation: Van Huynh	Phone: 60-534-1512	Date: 01/18/2024
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 01/18/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/18/2024

Request # 2181-1-1

## Part II: Narrative Explanation

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

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

#### CURRENT LAW:

Pipe tobacco is subject to tobacco products tax at the rate of 95% of the taxable sales price.

#### PROPOSAL:

This bill reduces the tobacco products tax rate for pipe tobacco to 65% of the taxable sales price.

"Pipe tobacco" is any tobacco which, because of its appearance, type, packaging, or labeling, is suitable for use and likely to be offered to, or purchased by, consumers as tobacco to be smoked in a pipe.

#### EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session. However, due to the time it will take to update the Department of Revenue's (department) tax system, the department is unable to implement this bill until October 1, 2024.

### II. B - Cash receipts Impact

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

#### ASSUMPTIONS

- The tax rate change, as estimated, assumes implementation effective October 1, 2024, and impacts eight months of collections in fiscal year 2025.
- No growth rates are applied to the estimates, as taxable sales can be volatile.
- Seller markup of 18.8%.
- Local revenue estimates use the statewide average local sales and use tax rate of 2.95%.
- The department receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenues for the state and a two-month delay in revenues for local jurisdictions.

#### DATA SOURCES

- Department of Revenue, Excise tax data
- Tobacco information online

#### REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$260,000 in the eight months of impacted collections in fiscal year 2025 and by \$390,000 in fiscal year 2026, the first full year of impacted collections. This bill also decreases local revenues by an estimated \$7,000 in the seven months of impacted collections in fiscal year 2025 and by \$13,000 in fiscal year 2026, the first full year of impacted collections.

#### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 260)
FY 2026 -	(\$ 390)
FY 2027 -	(\$ 390)
FY 2028 -	(\$ 390)

Request # 2181-1-1

FY 2029 - (\$ 390)

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

FY 2024 - \$ 0  
FY 2025 - (\$ 7)  
FY 2026 - (\$ 13)  
FY 2027 - (\$ 13)  
FY 2028 - (\$ 13)  
FY 2029 - (\$ 13)

## II. C - Expenditures

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

### ASSUMPTIONS:

- This bill affects 100 taxpayers.
- The department will require six months for implementation and development. Expenditures assume an effective date of October 1, 2024.

### FIRST YEAR COSTS:

The department will incur total costs of \$94,900 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.17 FTE.

- Set up, program, and test computer system changes.
- Create a Special Notice and update information on the department’s website.

Object Costs - \$72,300.

- Computer system changes, including contract programming.

### SECOND YEAR COSTS:

The department will incur total costs of \$57,700 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.47 FTE.

- Amend one administrative rule.
- Gathering requirements; implementation meetings; documenting and testing of system changes.
  - Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.

### ONGOING COSTS:

There are no ongoing costs.

## Part III: Expenditure Detail

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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.5	0.3		
A-Salaries and Wages	14,500	36,500	51,000		
B-Employee Benefits	4,800	12,000	16,800		
C-Professional Service Contracts	72,300		72,300		
E-Goods and Other Services	2,200	6,200	8,400		
J-Capital Outlays	1,100	3,000	4,100		
<b>Total \$</b>	<b>\$94,900</b>	<b>\$57,700</b>	<b>\$152,600</b>		

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	131,684		0.0	0.0		
EXCISE TAX EX 3	64,092		0.1	0.1		
IT B A-JOURNEY	91,968		0.3	0.2		
IT SYS ADM-JOURNEY	96,552	0.1		0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120	0.0	0.0	0.0		
TAX POLICY SP 3	88,416	0.0	0.0	0.0		
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456	0.0		0.0		
WMS BAND 3	111,992		0.0	0.0		
<b>Total FTEs</b>		0.2	0.5	0.4		

### III. C - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

NONE

### IV. B - Expenditures by Object Or Purpose

NONE

### IV. C - Capital Budget Breakout

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

## Part V: New Rule Making Required

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Should this legislation become law, the department will use the expedited process to amend WAC 458-20-185, titled: "Tax on tobacco products." Persons affected by this rulemaking would include buyers and sellers of pipe tobacco.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 2181 HB	<b>Title:</b> Pipe tobacco excise tax rate	<b>Agency:</b> 195-Liquor and Cannabis Board
-----------------------------	--	--

## Part I: Estimates

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Operating Expenditures from:**

NONE

**Estimated Capital Budget Impact:**

NONE

*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.

Legislative Contact: Kristina King	Phone: 360-786-7190	Date: 01/08/2024
Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 01/10/2024
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 01/10/2024
OFM Review: Val Terre	Phone: (360) 280-3973	Date: 01/10/2024

## Part II: Narrative Explanation

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

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

Section 1(15) creates a new definition of “pipe tobacco” as “any tobacco which, because of its appearance, type, packaging, or labeling, is suitable for use and likely to be offered to, or purchased by, consumers as tobacco to be smoked in a pipe.”

Section 2(1e) levies a tax on pipe tobacco at 65% of the taxable sales price.

### II. B - Cash receipts Impact

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

### II. C - Expenditures

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

No fiscal impact to the agency. There is a possible reduction in tax evasion cases due to the lowering of the excise tax on pipe tobacco. However, this is countered by a possible increase in roll your own (RYO) tax evasion by marketing it as pipe tobacco.

The agency sees these two items as cancelling the work load out.

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

NONE

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

NONE

**III. C - Operating FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

### III. D - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

NONE

### IV. B - Expenditures by Object Or Purpose

NONE

### IV. C - Capital Budget Breakout

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

## **Part V: New Rule Making Required**

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*





# Multiple Agency Ten-Year Analysis Summary

<b>Bill Number</b> 2181 HB	<b>Title</b> Pipe tobacco excise tax rate
-------------------------------	--

This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

## Estimated Cash Receipts

Department of Revenue	0	0	0	0	0	0	0	0	0	0	0
Liquor and Cannabis Board	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



# Ten-Year Analysis

<b>Bill Number</b> 2181 HB	<b>Title</b> Pipe tobacco excise tax rate	<b>Agency</b> 140 Department of Revenue
-------------------------------	--	--

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

**No Cash Receipts**                       **Partially Indeterminate Cash Receipts**                       **Indeterminate Cash Receipts**

<b>Name of Tax or Fee</b>	<b>Acct Code</b>												
---------------------------	------------------	--	--	--	--	--	--	--	--	--	--	--	--

Agency Preparation: Van Huynh	Phone: 360-534-1512	Date: 1/18/2024 3:29:41 pm
Agency Approval: Marianne McIntosh	Phone: 360-534-1505	Date: 1/18/2024 3:29:41 pm
OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 2181 HB	<b>Title</b> Pipe tobacco excise tax rate	<b>Agency</b> 195 Liquor and Cannabis Board
-------------------------------	--	--

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

**No Cash Receipts**                       **Partially Indeterminate Cash Receipts**                       **Indeterminate Cash Receipts**

<b>Name of Tax or Fee</b>	<b>Acct Code</b>												
---------------------------	------------------	--	--	--	--	--	--	--	--	--	--	--	--

Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 1/10/2024 11:28:02 an
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 1/10/2024 11:28:02 an
OFM Review:	Phone:	Date: