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General Fund Taxes

Other General Fund Taxes

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LFB Summary Items for Which Issue Papers Have Been Prepared

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1	Cigarette Tax Refund Percentage (Paper #121)
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Gov Agency: General Fund Taxes—Other General Fund Taxes—Cigarette
Tax Refunds: Current Law Reestimates

Recommendations:

Paper No. 120 Approve Modification

Comments: Just a reestimate of the administration's estimate of the
cigarette tax refunds. Sounds okay to me.

Prepared by: Julie



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Joint Committee on Finance

Paper #120

Cigarette Tax Refunds: Current Law Reestimates (General Fund Taxes -- Other General Fund Taxes)

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CURRENT LAW

Federal law prohibits states from imposing a cigarette tax on sales of cigarettes by Native Americans to Native Americans on reservations. Wisconsin statutes direct the Department of Revenue (DOR) to refund 70% of cigarette taxes from sales on reservations or trust lands of an Indian tribe that were designated as such on or before January 1, 1983. The statutes further authorize DOR to enter into agreements with the tribes to provide for the refunding of 100% of cigarette tax collections from sales on reservations to tribal members.

Cigarette tax refunds to Native American tribes are paid through a sum sufficient GPR appropriation. Base funding for the appropriation is \$12,200,000. Expenditures in 1998-99 are estimated at \$10,000,000.

GOVERNOR

Reduce the current law sum sufficient appropriation for cigarette tax refunds to Native American tribes by \$1,800,000 in 1999-00 and \$1,300,000 in 2000-01 to reflect lower estimates of the refunds under present law. Total funding for this appropriation under current law would be \$10,400,000 in 1999-00 and \$10,900,000 in 2000-01. [The Governor's proposal to decrease the refund percentage is addressed in Issue Paper #121.]

DISCUSSION POINTS

1. The administration's reestimates of cigarette tax refunds to Native American tribes assume an underlying growth in cigarette consumption of 2% annually. The underlying growth is

subsequently reduced to reflect assumed decreases in cigarette consumption following price increases associated with the settlement of the tobacco lawsuit.

2. Estimates of both tax collections from the sale of cigarettes and the funding needed for cigarette tax refunds to Native American tribes are related to projected levels of cigarette consumption. However, the assumptions used by the administration in estimating the cigarette tax refunds differ from the assumptions used in estimating cigarette tax collections. Specifically, the estimates of 1999-01 cigarette tax revenue included in the bill assume the following with respect to overall cigarette consumption: (a) an underlying 1% reduction in consumption annually; (b) further reductions following price increases associated with the settlement of the tobacco lawsuit; and (c) further reductions associated with the 10¢ federal cigarette tax increase that will take effect on January 1, 2000.

3. It would be reasonable to estimate cigarette tax refunds using the same three assumptions that were used to estimate cigarette tax revenues. If this methodology is used, total refunds under current law are estimated to be \$9,520,000 in 1999-00 and \$9,320,000 in 2000-01. These amounts are lower than the Governor's estimates by \$880,000 in the first year and \$1,580,000 in the second year.

MODIFICATION

Reestimate funding for cigarette tax refunds under current law at \$9,520,000 in 1999-00 and \$9,320,000 in 2000-01. The reestimates are based on assumed 1% annual reductions in cigarette consumption, with additional reductions related to increases in cigarette prices and federal taxes as described above. Compared to the bill, the revised estimates decrease funding for the refunds by \$880,000 in 1999-00 and \$1,580,000 in 2000-01.

<u>Modification</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$2,460,000

It should be noted that Issue Paper #121 addresses the Governor's proposal to reduce the rate of cigarette tax refunds to Native American tribes from 70% to 50%. Based on the modification of estimated cigarette tax refunds under current law, the estimated savings that would result from changing the refund rate to 50% would be less than the administration's projections.

Prepared by: Faith Russell