

Fiscal Estimate - 2023 Session

Original Updated Corrected Supplemental

LRB Number 23-2323/3	Introduction Number AB-0910	
Description remote sellers of cigars and pipe tobacco		
Fiscal Effect		
State:		
<input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <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"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
Local:		
<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		
5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected		
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
Affected Ch. 20 Appropriations		
Agency/Prepared By	Authorized Signature	Date
DOR/ Momodou Bah (608) 266-8133	Cari Redington (608) 266-2943	1/8/2024

Fiscal Estimate Narratives

DOR 1/8/2024

LRB Number	23-2323/3	Introduction Number	AB-0910	Estimate Type	Original
Description remote sellers of cigars and pipe tobacco					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates a Remote Retail Seller of Cigars and Pipe Tobacco permit. The permittee will be allowed to make retail sales of cigars and pipe tobacco products directly to consumers. No person may engage in the business of a remote retail seller of cigars and pipe tobacco at any place of business within or outside this state unless they hold a permit.

The bill added definitions for "Cigar" and "Pipe tobacco" and changes the imposition of the excise tax on cigars and pipe tobacco for remote retail sellers based on "actual cost" instead of the "manufacturer's list price" under current law.

FISCAL ESTIMATE

The bill will create new permittees and provides greater tax compliance from remote retail sellers of cigars and pipe tobacco. The department estimates an indeterminate increase in excise tax collections due to the potential increase to the number of remote retail sellers and the volume of cigars and pipe tobacco they may sell into the state. The revenue increase will depend on the extent that the bill increases compliance with the tobacco product tax as it relates to the remote sale of cigars and/or pipe tobacco and how much actual cost differs from the manufacturer's established list price to distributors.

For illustrative purpose, from June 2018 to November 2023 sales tax collections from online premium cigar sales in the state based on the larger sellers' sales tax paid was about \$570,000 per year. At the state sales tax rate of 5%, total online sales for premium cigars are estimated to be about \$11,420,000 per year. Assuming an average sales price of \$7.50/cigar, the number of premium cigars sold online in the state is 1,520,000 cigars per year. At an excise tax rate of \$0.50 per cigar, the excise taxes are estimated at \$760,000 per year. With an effective date of January 1, 2025, the excise tax collection for FY25 will be about \$380,000.

The amount of online pipe tobacco sold in state is relatively small, so the effect on excise tax collections would be insignificant.

ADMINISTRATIVE COSTS

The department estimates one-time administrative costs of \$439,490 for the Division of Technical Services (DTS) and \$32,200 for the Division of Income, Sales, and Excise Tax (ISE) for programming costs, updating the state's tax processing system and for processing new applications and forms.

Administration of the new law would require additional staffing (one Revenue Agents and one Auditor) in the department. Ongoing administrative expenses for staff and related supplies, services, and equipment for IS&E is estimated to be \$219,870.

The costs cannot be absorbed within existing resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description remote sellers of cigars and pipe tobacco		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): \$4472,000		
II. Annualized Costs:		
Annualized Fiscal Impact on funds from:		
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$220,000	\$
(FTE Position Changes)	(2.0 FTE)	
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$220,000	\$
B. State Costs by Source of Funds		
GPR	220,000	
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, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$220,000	\$
NET CHANGE IN REVENUE	\$See text.	\$
Agency/Prepared By		
Authorized Signature		Date
DOR/ Momodou Bah (608) 266-8133		1/8/2024
Cari Redington (608) 266-2943		