

Fiscal Estimate - 2023 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 23-5288/1	Introduction Number SB-0835
------------------------------------	---

Description
 sellers of cigars and pipe tobacco

Fiscal Effect

State:

- No State Fiscal Effect
- Indeterminate
 - Increase Existing Appropriations
 - Decrease Existing Appropriations
 - Create New Appropriations
- Increase Existing Revenues
- Decrease Existing Revenues
- Increase Costs - May be possible to absorb within agency's budget
 - Yes
 - No
- Decrease Costs

Local:

- No Local Government Costs
 - Indeterminate
 - 1. Increase Costs 3. Increase Revenue
 - Permissive Mandatory Permissive Mandatory
 - 2. Decrease Costs 4. Decrease Revenue
 - Permissive Mandatory Permissive Mandatory
- 5. Types of Local Government Units Affected**
- Towns Village Cities
 - Counties Others
 - School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR
 FED
 PRO
 PRS
 SEG
 SEGS

Agency/Prepared By	Authorized Signature	Date
DOR/ Momodou Bah (608) 266-8133	Cari Redington (608) 266-2943	1/5/2024

Fiscal Estimate Narratives

DOR 1/5/2024

LRB Number	23-5288/1	Introduction Number	SB-0835	Estimate Type	Original
Description 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

LRB Number 23-5288/1	Introduction Number SB-0835	
Description 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): \$472,000		
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	Cari Redington (608) 266-2943	1/5/2024