

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 641** HLS 13RS 1010

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 16, 2013 4:14 PM	Author: THOMPSON, J
Dept./Agy.: Revenue/ATC/Attorney General	Analyst: Deborah Vivien
Subject: Tobacco Enforcement to comply with MSA	

SALES/TOBACCO DEALERS

RE +\$75,000 GF EX See Note

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Provides relative to tobacco enforcement

Current law provides for parameters and enforcement to comply with the Master Settlement Agreement as it relates to the collection and imposition of excise tax on tobacco products. The Master Settlement Agreement provides funding, which the state has pledged to securitized debt, the LA Fund and TOPS. The treasurer is directed to transfer \$400,000 from the state general fund to the Tobacco Settlement Enforcement Fund for use by the Department of Justice in enforcing the Master Settlement Agreement.

Proposed law supplements enforcement and reporting, permitting and bonding requirements related to the tobacco tax. The provisions are expected to serve as compliance with the term sheet of the Tobacco Arbitration Settlement and maintain the state's standing in the Master Settlement Agreement.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	\$75,000	\$75,000	\$75,000	\$75,000	\$300,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total		\$75,000	\$75,000	\$75,000	\$75,000	\$300,000

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The three areas with additional administrative duties regarding this bill are the Department of Revenue - Tax Collection Program (LDR), Alcohol and Tobacco Control (ATC), and the Attorney General (AG). According to the agency, additional duties of the ATC are expected with increased enforcement (absorbed in current budget) and providing a permit for stamping agents and exporters (system adjustment of \$25,000 in year 1). LDR is required to compile numerous forms that are mandated by this bill in addition to the forms required in payment of tobacco taxes, which is currently conducted on paper forms with electronic payment capabilities. LDR has authority to require electronic filing of these forms for better reconciliation efforts and data capture, but has not been funded to do so. To continue with the current manual process, LDR estimates a workload cost of \$300,000 in year 1 for system adjustments and form related expenses. To adapt the system to an electronic format, LDR estimates an increased cost of \$1 million in year 1. LDR will also require at least one additional auditor with tobacco specialization to ensure enforcement at a cost of about \$75,000 per year. The AG is still reviewing the current bill and these cost estimates may be updated.

The AG will administer a surety bond offered by non-participating manufacturers to protect escrow payments which are already administered by the AG, apply more diligent enforcement efforts and accommodate additional documentation. These efforts can be accomplished within the existing agency budget as proposed in HB1 but will require 5 positions (2 CPAs, 1 attorney, 1 paralegal and 1 investigator).

REVENUE EXPLANATION

Enforcement of the MSA per its provisions secures the annual MSA payment for the state and complies with the agreement as stipulated in an arbitration settlement recently signed by the state. The dispute that prompted this agreement was, in part, due to a claimed lack of enforcement by the state regarding the MSA. This bill should help mitigate future disputes regarding MSA payments to the state.

The Tobacco Settlement Enforcement Fund is currently appropriated to the Department of Justice. At this time, no funds are transferred to LDR or ATC for enforcement of tax collection and licensing, which are also components of the MSA. One-quarter of one-twentieth of one cent per cigarette of the tobacco tax is dedicated to the Tobacco Regulation Enforcement Fund for use by ATC in enforcement and retirement benefits. Most of the enforcement mechanisms in the bill focus on market share of non-participating manufacturers, though some additional tobacco tax avoidance may be detected. To the extent this occurs, SGF and Statutory Dedication revenue will increase.

Senate

Dual Referral Rules

House

- | | |
|---|--|
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S} |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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