

OKLAHOMA TAX COMMISSION

FISCAL IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT SECOND EXTRAORDINARY SESSION, FIFTY-SIXTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: February 10, 2018

BILL NUMBER: HB 1033xx **STATUS AND DATE OF BILL:** Committee Substitute 02/08/18
(Revised)

AUTHORS: House Wallace and Casey Senate David and Fields

TAX TYPE(S): Cigarette, Tobacco, Motor Fuels, Gross Production & Other **SUBJECT:** Tax Levy

PROPOSAL: New Law, Amendatory & Repealer

HB 1033xx proposes the following:

- An additional excise tax of 75 mills per cigarette (\$1.50 per pack of 20 cigarettes)
- Limits certain cigarette stamps sales by the OTC
- Creates the State Health Care Enhancement Fund
- Taxes little cigars at the same rate and in the same manner as cigarettes
- Strikes current tobacco products levies on little cigars
- An additional tobacco products excise tax of 10% of the factory list price on chewing tobacco
- An additional motor fuel excise of \$0.06 per gallon for gasoline and diesel fuel
- Amends the motor fuel exemption statute to provide for the additional levy proposed herein
- Raises the gross production tax incentive rate from two percent (2%) to four percent (4%)
- A one dollar (\$1.00) per megawatt hour levy on the production of electricity by each commercial wind turbine within the state

EFFECTIVE DATE: 90 days after Governor's approval

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 18: \$ 20,373,000 Estimated increase in state revenue (see attached for analysis)

FY 19: \$581,445,000 Estimated increase in state revenue (see attached for analysis)

ADMINISTRATIVE IMPACT:

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 19: Unknown increase

Feb. 10, 2018
DATE

Rick Miller
DIVISION DIRECTOR

msm,mjh,klb

2-10-18
DATE

Reece Womack
REECE WOMACK, ECONOMIST

2-10-18
DATE

Jim Mink
FOR THE COMMISSION

Attachment to Fiscal Impact HB 1033xx [Committee Substitute] Prepared February 10, 2018

Section 2 of HB 1033xx proposes an additional levy on cigarettes at the rate of 75 mills per cigarette. This section also provides additional revenues attributable to the new levy less amounts rebated pursuant to tribal compacts are to be apportioned to the General Revenue Fund for periods prior to July 1, 2019. Thereafter, the revenues resulting from this additional levy are to be apportioned to the State Health Care Enhancement Fund.

Section 3 of HB 1033xx prohibits the Oklahoma Tax Commission from selling cigarette excise tax stamps to any wholesaler in excess of the amount of the monthly average amount of such excise tax stamps sold to such wholesaler during the preceding calendar year prior to the effective date of Sections 2 and 3 of this Act unless the wholesaler can document to the satisfaction of the Tax Commission probable sales greater than those in the preceding calendar year.

Applying the proposed increase to estimated pack sales¹ and an 11.5% elasticity adjustment, additional cigarette tax revenues are estimated as follows:

FY 18 - \$20,234,000 estimated increase in cigarettes tax collections [one collection month]

FY 19 - \$243,125,000 estimate increase in cigarettes tax collections

Section 4 of HB 1033xx creates the State Health Care Enhancement Fund.

Section 5 of HB 1033xx proposes an amendment to Section 402 of Title 68 to tax “little cigars” at the same rate as cigarettes in addition to striking one of the tobacco products excise tax levies that currently applies to little cigars.

Estimated additional tobacco tax revenues are projected as follows:

FY 18 - \$139,000 estimated increase in tobacco tax collections with \$30,580 apportioned to the General Revenue Fund and \$108,420 apportioned pursuant to 68 O.S. §§ 402-1 through 402, 404

FY 19 - \$1,665,000 estimated increase in tobacco tax collections with \$366,300 apportioned to the General Revenue Fund and \$1,298,700 apportioned pursuant to 68 O.S. §§ 402-1 through 402, 404

Sections 6 and 7 of HB 1033xx propose amendments to Sections 402-1 and 402-3 of Title 68 by striking the remaining tobacco products tax levies which currently apply to “little cigars”.

Section 8 of HB 1033xx imposes an additional ten percent (10%) tax upon the factory list price² on chewing tobacco, smokeless tobacco and snuff. Based on FY 17 excise tax collection associated with these products no additional tobacco products excise tax revenue is estimated for FY 18. Collections attributable to the new levy are to be apportioned to the General Revenue Fund for periods prior to July 1, 2019. Thereafter, the revenues resulting from this additional levy are to be apportioned to the State Health Care Enhancement Fund. The estimate for FY 19 is set forth as follows:

FY 19 - \$11,200,000 estimated increase in tobacco tax collections
(100% to be apportioned to the General Revenue Fund)

Section 9 of HB 1033xx imposes an additional levy of six cent (\$0.06) per gallon on all gasoline and diesel fuel used or consumed in this state. Prior to July 1, 2019, all revenues available after tribal payment allocation are to be credited to the General Revenue Fund. Beginning July 1, 2019, these revenues are to be credited to

¹ Based on the Oklahoma Tax Commission Forecast for FY 18 and FY 19 issued December 14, 2017.

² Exclusive of any trade discount, special discount or deals.

the Rebuilding Oklahoma Access and Driver Safety [ROADS] Fund created in Section 1521 of Title 69.

The estimated additional motor fuel taxes on gasoline and diesel are as follows:

FY 18 – No additional revenues are estimate to occur in FY 18 as a result of this measure

FY 19 - \$172,090,000 estimated increase in motor fuel tax collections
(100% to be apportioned to the General Revenue Fund)

Section 10 of HB 1033xx proposes amendment to Section 500.10 to ensure that current motor fuel tax exemptions would apply to the new levies proposed in Section 9.

Sections 11 and 12 of HB 1033xx proposes to increase the gross production tax incentive rate from two percent (2%) to four percent (4%).

Currently, the incentive levy of two percent (2%) is applicable to the production of oil and/or natural gas produced from wells that were drilled beginning July 1, 2015. The reduced rate is effective for the first thirty-six (36) months of production. Thereafter, the rate increases to seven percent (7%).

HB 1033xx proposes to increase the incentive levy to four percent (4%) for all new wells and existing wells that currently qualify for the reduced incentive rate of two percent (2%). The proposed amendment would become effective with the production month of May 2018, resulting in increased revenue collections occurring July 2018. The proposed rate amendment does not change the thirty-six (36) month term period.

HB 1033xx also restores two gross production tax incentives. The incentives would apply to operators who enhance the production from existing wells or reestablish the production of non-producing wells where there is a cessation of production for twenty-four (24) months. The FY 19 revenue impact associated with the reduced rate incentives for production enhancements and reestablished production is minimal.

The estimated impact associated with this measure increases gross production revenues as follows:

FY 19:

\$76,497,000 Increase in GPT oil collections

\$56,868,000 Increase in GPT natural gas collections

Apportionment of the Impact Associated with a GP Rate Increase from 2% to 4%

| <u>Oil</u> | | Estimated Impact |
|--|--------------|-----------------------------|
| | | \$76,497,000 |
| General Revenue Fund | 96.25% | \$73,628,400 |
| County Bridge & Road | 3.28% | \$2,509,069 |
| Statewide Circuit Eng. Dist. Rev. Fund | <u>0.47%</u> | <u>\$359,531</u> |
| | 100.00% | \$76,497,000 |
| <u>Natural Gas</u> | | Estimated Impact |
| | | \$56,868,000 |
| General Revenue Fund | 100.00% | \$56,868,000 |

Sections 13 through 20 of HB 1033xx proposes a levy upon the production of electricity by each commercial wind turbine in this state which is a zero-emission facility, as defined by Section 2357.32A of Title 68, a tax of One Dollar (\$1.00) for each megawatt hour, or portion thereof, which is produced in this state from and after the effective date of this section. The tax shall be paid by the person or entity producing such electricity from a commercial wind turbine or other zero-emission facility. No wind turbine with a nameplate capacity of less than fifty kilowatts (50 kw) shall be subject to this tax. The tax imposed pursuant to this provision shall be remitted monthly and shall be due not later than the twentieth day of the month following the month during which electric power was produced. All revenues derived from the tax shall be apportioned to the General Revenue Fund of the State Treasury.

FY 19: \$20,000,000 increase in state revenues

Estimated Net Revenue Impact

| | FY 18 | FY 19 |
|----------------|--------------|---------------|
| Sections 2-3 | \$20,234,000 | \$243,125,000 |
| Sections 5-7 | \$ 139,000 | \$ 1,665,000 |
| Section 8 | \$ 0 | \$ 11,200,000 |
| Sections 9-10 | \$ 0 | \$172,090,000 |
| Section 11-12 | \$ 0 | \$133,365,000 |
| Sections 13-20 | \$ 0 | \$ 20,000,000 |
| Total | \$20,373,000 | \$581,445,000 |