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Bill Explanation

ASSEMBLY BILL NO. 204 **Assembly Committee on Taxation** **Hearing: March 6, 2003**

EXPLANATION – The bill would increase the business license tax, taxes on liquor, taxes on cigarettes, and the license fees for restricted slot route operations beginning on April 1, 2003. The tax increases would expire by limitation on June 30, 2003.

Business License Tax (Section 1)

The bill would increase the business license tax from \$25 per quarter (\$100 per year) for each equivalent full-time employee employed by a business in a quarter to \$75 per quarter (\$300 per year) for each equivalent full-time employee employed by a business in a quarter. During the joint committee hearing conducted on February 11, 2003, the Governor's Office indicated that the Governor was also proposing to expand the requirement to pay the business license tax to sole proprietors and for the first partner of each partnership. The bill does not include a provision to expand the requirement to pay the tax to sole proprietors and partnerships. The Governor's Task Force on Tax Policy recommended increasing the tax to \$35 per quarter (\$140 per year) for each full-time employee employed by a business in a quarter and expanding the requirement to pay the tax to sole proprietors and partnerships.

Projected New Revenues

<u>Governor's Original Proposal</u>	<u>A.B. 204</u>	<u>Difference</u>
\$42,697,678	\$39,746,500	(\$2,951,178)

Taxes on Liquor (Sections 2 and 3)

The bill would increase the tax on all four categories of liquor by approximately 89 percent as follows:

<u>Type of Alcohol</u>	<u>Current Rate</u>	<u>Increase</u>	<u>New Rate</u>
Malt Liquor (Beer)	\$0.09 per gallon	\$0.08 per gallon	\$0.17 per gallon
Liquor up to 14% alcohol (Wine)	\$0.40 per gallon	\$0.36 per gallon	\$0.76 per gallon
Liquor with more than 14% and not more than 22% alcohol (Spirits)	\$0.75 per gallon	\$0.67 per gallon	\$1.42 per gallon
Liquor with more than 22% alcohol	\$2.05 per gallon	\$1.82 per gallon	\$3.87 per gallon

This increase was recommended by the Governor's Task Force on Tax Policy, and would increase liquor taxes to reflect the rate of inflation since the taxes were last increased in FY 1984. All additional revenues generated would be deposited to the General Fund.

Projected New Revenues

<u>Governor's Projection</u>	<u>Fiscal Analysis Projection</u>	<u>Difference</u>
\$4,205,658	\$4,370,492	\$164,834

Taxes on Cigarettes (Sections 4, 5 and 6)

The bill would increase taxes on cigarettes from 17.5 mills per cigarette (\$0.35 per pack of twenty) to 52.5 mills (\$1.05 per pack of twenty). The revenues generated from the increase would be deposited to the General Fund. The Governor's Task Force on Tax Policy recommended increasing the tax to 35.0 mills per cigarette (\$0.70 per pack of twenty). Based on the significant increase in the price of a pack of cigarettes that would result from the provisions of the bill (approximately 17.5 percent), Fiscal Analysis Division staff believes that the tax increase would have the effect of reducing the number of cigarettes purchased by approximately 7.0 percent.

Projected New Revenues

<u>Governor's Projection</u>	<u>Fiscal Analysis Projection</u>	<u>Difference</u>
\$29,688,047	\$27,052,351	(\$2,635,696)

License Fees on Restricted Slot Operations (Section 7)

The bill would increase license fees for restricted slot operations by approximately 33 percent as follows:

Slot Machines	Current Rate	Increase	New Rate
Machines 1 thru 5	\$ 61 per machine	\$20 per machine	\$ 81 per machine
Machines 6 thru 15	\$106 per machine	\$35 per machine	\$141 per machine

This increase was recommended by the Governor's Task Force on Tax Policy. The rate was last increased in FY 1984. All additional revenues generated would be deposited to the General Fund.

Projected New Revenues

<u>Governor's Projection</u>	<u>Fiscal Analysis Projection</u>	<u>Difference</u>
\$561,100	\$561,100	\$0

NOTE – The Governor originally also recommended increasing all Secretary of State fees by 50 percent effective on April 1, 2003. The Governor's Office estimated that the additional fees would generate approximately \$6.8 million in new General Fund revenues in the last quarter of FY 2003. After the Governor announced his tax plan, the Secretary of State indicated that his office would have a difficult time implementing many of the recommended fee increases by April 1, 2003, and the fees have not been included in the provisions of A.B. 204 or S.B. 219.

**Comparison of Governor's Original Tax Proposal for FY 2003 and Fiscal Analysis Division's
Projection of New Revenues Generated by AB 204 and SB 219**

Tax or Fee Increase	Projections Based on Governor's Original Proposal	FAD Projections of Revenues Generated by AB 219/SB 204	Difference
Business License Tax	\$42,697,678	\$39,746,500	(\$2,951,178)
Secretary of State Fees	\$6,784,762	\$0	(\$6,784,762)
Liquor Taxes	\$4,205,658	\$4,370,492	\$164,834
Cigarette Taxes	\$29,688,047	\$27,052,351	(\$2,635,696)
Restricted Slot Fees	\$561,100	\$561,100	\$0
Total	\$83,937,245	\$71,730,443	(\$12,206,802)