



[SF 2402](#) – Device Retailers, Paraphernalia Regulation (LSB5058SZ)
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Fiscal Note Version – New

Description

Division I of [SF 2402](#) requires retailers who sell glass or metal pipes (defined in the Bill as devices), that would otherwise be defined as drug paraphernalia, but are exempt due to the intended use with tobacco products, be taxed at a rate of 40.0% in addition to the sales tax and use tax.

The Bill creates the Specialty Courts Program Fund, under the control of the Department of Corrections, and deposits revenues from the tax in the Fund. Money in the Fund would only be available to support specialty courts addressing underlying substance use disorders and mental health-related issues that contribute to the contact of individuals with the justice system.

Retailers of devices that do not possess a tobacco permit must apply for a device retailer and pay a permit fee of \$1,500. Cities and counties that collect the device retailer permit fee will retain the revenue. Device retailer permit fees collected by the State will be deposited in the Specialty Courts Program Fund.

The sale of devices will be prohibited to anyone under the age of 18. The Bill establishes civil penalties for violations.

Division II requires that unless a State or federal agency substantiates the product claims, sellers of hemp-derived cannabidiol must display a label that contains a specific statement. This Division does not have a fiscal impact.

Assumptions

- The Department of Revenue (IDR) identified 35 businesses that sell these devices as part of their total taxable sales.
- Total sales at these stores from FY 2019 were allocated to calculate an estimate of device sales. The assumptions include: four stores are 100.0% device sales, seven stores are 50.0% device sales, and 24 stores are 25.0% device sales. Estimated sales of devices were \$5.9 million in FY 2019.
- The Department of Public Health (DPH) and Department of Commerce, Alcoholic Beverages Division (ABD) will have additional retail compliance checks to complete for device retailers.
- The permit fees collected by the State for out-of-state device retailers cannot be determined.

Fiscal Impact

Senate File 2402 is estimated to generate \$2.6 million annually for the Specialty Courts Program Fund beginning in FY 2021.

Cities or counties would receive an estimated \$52,500 annually beginning in FY 2021.

The DPH and ABD enforcement checks will be implemented with the agencies' existing budgets.

Sources

Department of Revenue
Department of Public Health
Department of Commerce, Alcoholic Beverages Division
LSA analysis and calculations

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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