

# MINNESOTA • REVENUE

## TOBACCO PRODUCTS TAX AND FEE Change Tax Base for Moist Snuff

March 15, 2011

Department of Revenue  
Analysis of H.F. 1079 (Holberg)

	Yes	No
DOR Administrative Costs/Savings	X	

	<b>Fund Impact</b>			
	<b><u>F.Y. 2012</u></b>	<b><u>F.Y. 2013</u></b>	<b><u>F.Y. 2014</u></b>	<b><u>F.Y. 2015</u></b>
	(000's)			
Tobacco Products	\$6,800	\$8,300	\$8,400	\$8,500
Sales Tax (6.5%)	<u>\$430</u>	<u>\$530</u>	<u>\$540</u>	<u>\$560</u>
General Fund Total	\$7,230	\$8,830	\$8,940	\$9,060
Health Impact Fund	\$6,800	\$8,300	\$8,400	\$8,500
Natural Resources and Arts Fund (0.375%)	\$25	\$30	\$31	\$32
<b>Total – All Funds</b>	\$14,055	\$17,160	\$17,371	\$17,592

Effective July 1, 2011.

### EXPLANATION OF THE BILL

The excise tax on tobacco products other than cigarettes is 35% of the wholesale price, and there is an additional health impact fee of 35%, for a total of 70%. The four primary categories of tobacco products are cigars, loose tobacco, chewing tobacco, and moist snuff.

The bill would change the tax base for moist snuff from wholesale price to weight. The excise tax rate would be \$1.45 per ounce of moist snuff, and the additional health impact fee would be \$1.45 per ounce, for a total of \$2.90. Any product weighing 1.2 ounces or less would be taxed at the \$2.90 total tax and fee amount. Proportionate tax and fee amounts would apply to any fractional parts in excess of 1.2 ounces. The proposal does not include a floor stocks tax.

### REVENUE ANALYSIS DETAIL

- The baseline is the February 2011 forecast for the tobacco products tax and the health impact fee on tobacco products. It is estimated that revenues from moist snuff comprise 64% of tobacco products revenues.
- Wholesale sales of moist snuff were derived by dividing the estimated moist snuff tax and fee revenues by the current combined tax and fee rate of 70%.
- Based on industry data, it is estimated that the average weighted wholesale price for a can of moist snuff in Minnesota was \$2.07 in fiscal year 2008, which results in an estimate of 17,500,000 cans sold. Industry data also indicates that the weighted average can size in fiscal year 2008 was 1.17 ounces.

**REVENUE ANALYSIS DETAIL (Cont.)**

- The estimate uses an elasticity factor of -0.55 to estimate the change in demand for moist snuff.
- Fiscal year 2011 is adjusted for ten months of collections for the expected reduced purchases during the transition period and the effective date.

**Number of Taxpayers:** There are approximately 150 distributors of other tobacco products in Minnesota.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)