

# MINNESOTA • REVENUE

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

April 14, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1079 (Holberg) –Estimates Revised for Updated Information

	<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 Excise Tax	\$6,900	\$8,500	\$8,600	\$8,800
Sales Tax (6.5%)	<u>\$430</u>	<u>\$540</u>	<u>\$560</u>	<u>\$580</u>
General Fund Total	\$7,330	\$9,040	\$9,160	\$9,380
Health Impact Fund	\$6,900	\$8,500	\$8,600	\$8,800
Natural Resources and Arts Fund (0.375%)	\$25	\$30	\$30	\$30
<b>Total – All Funds</b>	\$14,255	\$17,570	\$17,790	\$18,210

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 60% 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%.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Based on industry data, it is estimated that the average weighted wholesale price for a can of moist snuff in Minnesota was \$2.03 in fiscal year 2010, which results in an estimate of 19,880,000 cans sold. Industry data also indicates that the weighted average can size was 1.17 ounces.
- The estimates assume annual wholesale price growth of 2%.
- 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)