

MINNESOTA · REVENUE

MNCare Taxes, Cigarette and Tobacco Taxes Rate Changes and Dedication

March 18, 2002

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2641 (Bradley) / S.F. 3274 (Kiscaden), 2nd Engrossment

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005
	(000's)			
General Fund:				
Cigarette Excise Tax	\$0	(\$4,320)	(\$9,950)	(\$9,560)
Cigarette Sales Tax	\$0	\$1,910	\$4,590	\$4,590
Tobacco Excise Tax	\$0	(\$570)	(\$1,390)	(\$1,400)
Tobacco Sales Tax	\$0	\$170	\$420	\$420
Total General Fund	\$0	(\$2,810)	(\$6,330)	(\$5,950)
Health Care Access Fund:				
Cigarette Excise Tax	\$0	\$51,870	\$124,180	\$123,860
Tobacco Excise Tax	\$0	\$5,180	\$12,560	\$12,690
Cigarette Floor Stocks Tax	\$0	\$19,000	\$0	\$0
Tobacco Floor Stocks Tax	\$0	\$1,900	\$0	\$0
MNCare Rate to 1%	\$0	(\$22,610)	(\$99,520)	(\$161,010)
Total HCAF	\$0	\$55,340	\$37,220	(\$24,460)
LCMR Fund:				
Cigarette Excise Tax	\$0	(\$150)	(\$340)	(\$320)
Total All Funds	\$0	\$52,380	\$30,550	(\$30,730)

Effective: January 1, 2003

EXPLANATION OF THE BILL

Current Law: A gross revenues tax (MinnesotaCare Tax) of 1.5 percent is imposed on hospitals, health care providers, surgical centers and wholesale drug distributors. Revenues are deposited in the Health Care Access Fund. Beginning January 1, 2004, the tax rate is increased to 2 percent.

The cigarette tax rate is \$0.48 per pack of 20 cigarettes. \$0.02 from every pack is deposited in the LCMR (Legislative Commission on Minnesota Resources) Fund. The balance of the cigarette tax revenue is deposited in the General Fund. The tobacco tax rate is 35% of wholesale price. All revenues from the tobacco tax are deposited in the General Fund.

Proposed Law: Reduce the MinnesotaCare tax rate to 1 percent beginning January 1, 2003. Raise the cigarette tax rate by \$0.38 to \$0.86 per pack; raise the tobacco products tax rate by 28% to 63% of wholesale price. Tax revenues resulting from the tax *increase* on cigarettes and tobacco are deposited in the Health Care Access Fund. A floor stocks tax is also imposed on cigarettes and tobacco products and revenues from the floor stocks tax are deposited in the Health Care Access Fund.

REVENUE ANALYSIS DETAIL

MinnesotaCare Taxes:

- Baseline revenues from the February 2002 forecast were used for the various categories of MinnesotaCare Taxes.

Cigarette and Tobacco Taxes:

- Baseline revenues for this analysis were drawn from the February 2002 forecast for cigarette and tobacco products.
- An elasticity factor of -.45 was used to account for changes in consumption due to the tax increase. As such, general fund revenues under the proposal decline due to reduced consumption.
- The average retail price of cigarettes was predicted to grow at a rate of 5% annually for the baseline.
- Indian tobacco tax refunds grow at a proportional rate to the tax increase.
- Because this law would become effective January 1, 2003, five months of collections would be realized in FY03.
- It was assumed that the bill would be amended to adjust the cigarette discount rate to be revenue neutral and adjust the discount rate for the tobacco products tax.

NUMBER OF TAXPAYERS AFFECTED: 65 distributors for cigarettes and 200 distributors for tobacco products. 7,600 health care providers, 165 hospitals/surgical centers, 125 legend drug distributors.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be administrative or operational costs to DOR in administration of this bill. The department will incur printing and mailing costs for the one-time floor tax.

Source: Minnesota Department of Revenue
Tax Research Division