

MINNESOTA · REVENUE

SALES AND USE TAX Smoking Cessation Aids

February 20, 2002

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

Department of Revenue

Analysis of H.F. 3050 (Westerberg)/S.F. 3371 (Frederickson)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
			(000's)	
General Fund	(\$0)	(\$670)	(\$750)	(\$770)

Effective for sales and purchases made after June 30, 2002

EXPLANATION OF THE BILL

Current Law: Sales of most over-the-counter drugs, medicines, and health products (including nicotine replacement products) are subject to the sales and use tax.

Proposed Law: Items approved by the Federal Drug Administration to be used exclusively to assist individuals to refrain from smoking tobacco, such as nicotine patches, nicotine inhalers, and nicotine gum would be exempt from the sales tax.

REVENUE ANALYSIS DETAIL

- *Chain Drug Review* reported smoking national cessation product sales of \$606.6 million for a period approximately corresponding to fiscal year 2001. Two products dominate the market for smoking cessation products (accounting for about 75% of national sales).
- The over-the-counter nicotine replacement products in the estimate include the nicotine patch, nicotine gum, and non-nicotine gum. All items included in the estimate are approved for use by the Federal Drug Administration.
- The national estimate was apportioned to Minnesota at 1.75% for fiscal year 2001, the state's portion of the U.S population based on U.S. Census information.
- A growth factor of 3% per year was applied.
- The fiscal year 2003 estimate was reduced to reflect 11 months of collections.

Number of Taxpayers: The Centers for Disease Control and Prevention estimate that 20.5% of Minnesota adults smoke tobacco. Casual studies indicate that about 1/3 of the smoking population attempt to quit smoking each year.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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