

**SALES AND USE TAX
Smoking Cessation Aids**

February 28, 2001

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

Department of Revenue
Analysis of S.F. 268 (Robling)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$640)	(\$720)	(\$740)	(\$760)

Effective for sales made after June 30, 2001.

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. Over-the-counter analgesics, insulin, and prescribed drugs and medicines are exempt from sales tax.

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

REVENUE ANALYSIS DETAIL

- *Chain Drug Review* reported smoking cessation product sales of \$601.6 million for calendar year 2000. Three products dominate the market for smoking cessation products (accounting for more than 85% of national sales).
- The over-the-counter nicotine replacement products in the estimate include the nicotine patch, nicotine gum, non-nicotine gum. All items included in the estimate are approved for use by the Federal Drug Administration.
- A growth factor of 3% per year was applied.

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REVENUE ANALYSIS DETAIL (cont.)

- The national estimate was apportioned to Minnesota at 1.751% for 2000, the state's portion of the U.S population based on U.S. Census information.
- The fiscal year 2002 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 are no administrative or operational costs to the Department of Revenue in administering this bill.

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