

MINNESOTA • REVENUE

MNCare and Cigarette Tax Rate and Disposition Changes

April 9, 2004

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

Department of Revenue
Analysis of H.F. 2533 (Bradley) As Proposed to be Amended (H2533A1)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
Cigarette Excise Tax	\$0	(\$363)	(\$638)	(\$417)
Cigarette Tax Refunds	\$0	(\$864)	(\$2,085)	(\$2,095)
Sales Tax on Cigarettes	\$0	<u>\$1,462</u>	<u>\$3,486</u>	<u>\$3,462</u>
General Fund Total	\$0	\$235	\$763	\$950
MNCare Tax Reduction	\$0	(\$14,840)	(\$47,520)	(\$51,760)
Cigarette Floor Stocks Tax	\$0	<u>\$8,120</u>	<u>\$0</u>	<u>\$0</u>
Health Care Access Fund Total	\$0	(\$6,720)	(\$47,520)	(\$51,760)
Disbursement to Commerce (MCHA)	\$0	\$36,917	\$87,876	\$87,145
Academic Health Center Fund	\$0	\$74	\$215	\$248
Medical Education & Research Account, Special Revenue Fund	<u>\$0</u>	<u>\$8</u>	<u>\$33</u>	<u>\$46</u>
Total All Funds	\$0	\$30,514	\$41,367	\$36,629

Effective January 1, 2005.

EXPLANATION OF THE BILL

Current Law: A gross revenue tax (MinnesotaCare Tax) of 2% is imposed on hospitals, health care providers, surgical centers, and wholesale drug distributors. Revenues are deposited in the Health Care Access Fund.

The cigarette tax rate is 48¢ per pack of 20 cigarettes. The Academic Health Center Fund receives 6.5¢ per pack and the Medical Education and Research Account in the Special Revenue Fund receives 2.5¢ per pack. The balance of the cigarette tax revenue (39¢ per pack) remains in the General Fund.

EXPLANATION OF THE BILL (cont.)

Proposed Law: The bill would reduce the MinnesotaCare tax rate from 2.0% to 1.75%.

The proposal is to raise the cigarette tax rate from 48¢ to 77¢ per pack of 20. The amount due to the Academic Health Center Fund would be raised from 6.5¢ per pack to 6.8¢ per pack and for the Medical Education and Research Account from 2.5¢ to 2.6¢. An amount equal to 27.4¢ per pack is to be credited to the Commissioner of Commerce to be disbursed to the Minnesota Comprehensive Health Association. The balance of 40.2¢ per pack would go the General Fund.

The proposal would impose a floor stocks tax (i.e. a tax on current inventories) on cigarettes. The floor stocks tax is imposed on persons engaged in selling cigarettes (on all cigarette stamps) at a rate of 29¢ per pack on cigarettes. The cigarette floor stocks tax is to be applied on all cigarette stamps in the inventory of the sellers as of January 1, 2005. Revenues from the floor stocks taxes are to be deposited in the Health Care Access Fund.

REVENUE ANALYSIS DETAIL

MinnesotaCare Taxes:

- Baseline revenues from the February 2004 forecast were used.
- Because the proposal is effective for gross revenues received after December 31, 2004, the impact in fiscal year 2005 reflects five months of estimated tax payments for hospitals and surgical centers and one quarterly payment of estimated tax for health care providers and wholesale drug distributors.

Cigarette Taxes:

- Baseline revenues are the February 2004 forecast for the cigarette tax.
- An elasticity factor of -0.45 was applied for changes in consumption due to the cigarette tax increase.
- The average retail price of cigarettes is predicted to grow at an annual rate of 5%.
- Indian cigarette tax refunds grow at a proportional rate to the tax increase. All refunds would continue to be paid from the general fund.
- Because this law becomes effective January 1, 2005, 5 months of collections would be realized in fiscal year 2005.
- It is assumed that the allocation by fund would be calculated as the gross revenue times the tax rate divided by the total rate (i.e. 27.4¢ / 77¢, 40.2¢ / 77¢, 6.8¢ / 77¢, and 2.6¢ / 77¢).
- It was estimated that approximately 28 million packs of cigarettes would be subject to the 29¢ per pack floor stocks tax.

NUMBER OF TAXPAYERS AFFECTED: 75 cigarette distributors. 6,770 health care providers, 150 hospitals/surgical centers, and 140 wholesale drug distributors.

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