CIGARETTE AND TOBACCO TAXES
Out-of-State Transport, Discounts, and
Fee for Non-Participating Manufacturers

April 24, 2003

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

Department of Revenue **PRELIMINARY ESTIMATE**
Analysis of H.F. 1199 (Abrams), **As Proposed to be Amended**

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
New Stamp Requirement	$0	$0	$0	$0
Cigarette Discount	$1,190	$1,180	$1,180	$1,170
Tobacco Discount	$270	$280	$290	$300
Fee for Non-Participating Manufacturers	$6,390	$6,560	$6,730	$6,800
Sales Tax on Fee	$420	$430	$440	$440
General Fund Total	$8,270	$8,450	$8,640	$8,710

Effective for sales of stamps and non-settlement cigarettes made after June 30, 2003.

EXPLANATION OF THE BILL

Current Law: There are no current provisions for Minnesota distributors receiving cigarettes in Minnesota and transporting them to another state.

The largest four cigarette manufacturers entered into a settlement agreement with the State of Minnesota. No provision has been made for other cigarette manufacturers that are now a growing and significant part of the cigarette market.

Cigarette distributors receive a discount of 1% from the face amount of the stamps for the first $1,500,000 and a discount of 0.6% on the balance. Tobacco products distributors receive a discount of 1.5% of the tax liability on the monthly return.

Proposed Law: Cigarettes transported from Minnesota to another state for sale will need to have the stamp of the selling state affixed prior to shipment and/or have any other required excise tax paid prior to shipment. A provision is made for quarterly reporting to the attorney general of cigarettes transported from the state and the names of the recipients.

The discounts for cigarette and tobacco distributors are repealed.

A fee of 1.75¢ per cigarette (35¢ per pack of 20) is imposed on cigarettes sold in Minnesota that are manufactured by companies not participating in a settlement agreement.

REVENUE ANALYSIS DETAIL

- The bill provides for administrative tracking of cigarettes moving into the state that are not sold in the state. There is no impact on tax revenue for this provision. This provision is directed at issues regarding litigation settlement agreements between cigarette manufacturers and the fifty states and unexpected market share developments. It could result in an impact on Minnesota's settlement payments.
- The cigarette discount for fiscal year 2002 was $1,200,593.
- The tobacco tax discount for fiscal year 2003 was $250,075.
- Estimates are based on the February 2003 forecast.
- It is assumed that, at the outset, all cigarette manufacturers other than Philip Morris, RJR Tobacco, Brown & Williamson, and Lorillard would be subject to the new fee.
- The preliminary estimate for the fee for non-participating manufacturers is based on national market share information with some confirming information from the Department of Revenue Special Taxes Division.
- The national market share for the non-participating manufacturers is estimated to be 6.1% in fiscal year 2003. The growth factor for market share of non-participating manufacturers is assumed to be 2.5% annually for the period 2001 to 2007.
- An elasticity factor of -0.450 is applied to the 35¢ per pack increase.

Number of Taxpayers: There are 73 cigarette distributors in Minnesota.

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

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