MNCare, Cigarette, Tobacco Taxes
Rate and Disposition Changes

March 18, 2004

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

Department of Revenue
Analysis of H.F. 2533 (Bradley) / S.F. 2468 (Kiscaden)

	Revenue Gain or (Loss) (000's)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
Cigarette Excise Tax	$0	$36,554	$87,238	$86,728
Cigarette Tax Refunds	$0	($864)	($2,085)	($2,095)
Sales Tax on Cigarettes	$0	$1,462	$3,486	$3,462
Tobacco Excise Tax	$0	$2,598	$6,460	$6,685
Sales Tax on Tobacco Products	$0	$104	$258	$267
Appropriation to Commerce (MCHA) - Cigarettes	$0	($39,073)	($93,007)	($92,234)
Appropriation to Commerce (MCHA) - Tobacco	$0	($2,903)	($7,219)	($7,470)
General Fund Total	$0	($2,122)	($4,869)	($4,657)
MNCare Tax Reduction	$0	($14,840)	($47,520)	($51,760)
Cigarette Floor Stocks Tax	$0	$8,120	$0	$0
Tobacco Floor Stocks Tax	$0	$60	$0	$0
Health Care Access Fund Total	$0	($6,660)	($47,520)	($51,760)
Academic Health Center Fund	$0	$74	$215	$248
Medical Education & Research Account, Special Revenue Fund	$0	$8	$33	$46
Total All Funds	$0	($8,700)	($52,141)	($56,123)

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) is deposited in the General Fund. The tobacco products tax rate is 35% of the wholesale price. All revenues from the tobacco products tax are deposited in the General Fund.

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 the amount due to the Medical Education and Research Account would be raised from 2.5¢ to 2.6¢. The balance (67.6¢) on the new total packs sold amount will be credited to the General Fund. Revenues from the increase in the cigarette tax are appropriated from the General Fund to the Commissioner of Commerce to be disbursed to the Minnesota Comprehensive Health Association.

The proposal would raise the tobacco products tax rate from 35% to 47% of wholesale price, and the proceeds would continue to be credited to the general fund. Revenues from the tobacco tax rate change are appropriated from the General Fund to the Commissioner of Commerce to be disbursed to the Minnesota Comprehensive Health Association.

The proposal would impose a floor stocks tax (i.e. a tax on current inventories). The cigarette 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. The tobacco products floor stocks tax is applied to tobacco products distributors only and is 12% of the wholesale sales price on tobacco products in their possession or under their control 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.

REVENUE ANALYSIS DETAIL (continued)

Cigarette and Tobacco Taxes:

- Baseline revenues are the February 2004 forecast for the cigarette and tobacco taxes.
- An elasticity factor of -0.45 was applied for changes in consumption due to the cigarette and tobacco tax increases.
- The average retail price of cigarettes is predicted to grow at an annual rate of 5%.
- Indian cigarette and tobacco 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 appropriation would be calculated as the gross revenue times the tax rate increase compared to the tax total (29¢ / 77¢ for cigarettes and 12% / 47% for tobacco products). The increase in price causes a decrease in consumption. This causes an appropriation that is somewhat larger than the net impact of the tax increase on the general fund (i.e. a loss to the general fund).
- It was estimated that approximately 28 million packs of cigarettes would be subject to the 29¢ per pack floor stocks tax. The floor stocks tax for tobacco products assumes a small amount held by distributors in the distribution flow to be subject to the 12% proposed rate.

NUMBER OF TAXPAYERS AFFECTED: 75 distributors for cigarettes and 180 distributors for tobacco products. 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

hf2533(sf2468)-1 / rrs