

MINNESOTA • REVENUE

TOBACCO PRODUCTS TAX AND FEE Change Tax Base for Moist Snuff

April 9, 2008

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1896 (Dibble) / H.F. 2311 (Davnie), Updated Estimates

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
	(000's)			
General Fund	\$0	\$4,300	\$4,800	\$5,000
Health Impact Fund	<u>\$0</u>	<u>\$4,300</u>	<u>\$4,800</u>	<u>\$5,000</u>
Total All Funds	\$0	\$8,600	\$9,600	\$10,000

Assumed effective July 1, 2008.

EXPLANATION OF THE BILL

The excise tax on tobacco products other than cigarettes is 35% of the wholesale price, and there is an additional health impact fee of 35%, for a total of 70%. The four primary categories of tobacco products are cigars, loose tobacco, chewing tobacco, and moist snuff.

The proposal would change the tax base for moist snuff from wholesale price to weight. The excise tax rate would be 91¢ per ounce of moist snuff, and the additional health impact fee would be 91¢ per ounce, for a total of \$1.82. A proportionate tax and fee at the like rate would apply to any fractional part of an ounce. The proposal does not include a floor stocks tax.

REVENUE ANALYSIS DETAIL

- The baseline is the February 2008 forecast for the tobacco products tax and the health impact fee on tobacco products. It is estimated that revenues from moist snuff comprise 60% of total other tobacco products revenues.
- Wholesale sales of moist snuff were derived by dividing the estimated moist snuff tax and fee revenues by the current combined tax and fee rate of 70%.
- Based on industry data, it is estimated that the average weighted wholesale price for a can of moist snuff in Minnesota was \$2.20 in fiscal year 2007, which results in an estimate of 14,400,000 cans sold. Industry data also indicates that the weighted average can size in fiscal year 2007 was 1.184 ounces.
- The estimate assumes annual volume growth under a weight based moist snuff tax of 3%.
- Fiscal year 2009 is adjusted for 11 months of collections due to the July 1st effective date.

Number of Taxpayers: There are 127 distributors of other tobacco products in Minnesota.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy