

MINNESOTA • REVENUE

CIGARETTE EXCISE TAX AND FEE TOBACCO PRODUCTS TAX AND FEE Little Cigars Classified as Cigarettes Change Tax Base for Moist Snuff

February 27, 2013

Department of Revenue
Analysis of S.F. 791 (Koenen)

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
	(000's)			
Cigarettes				
Nonsettlement Fee Increase to 55¢	\$1,500	\$1,600	\$1,600	\$1,600
Little Cigars				
Cigarette Excise Tax	\$2,500	\$2,700	\$2,700	\$2,700
Tobacco Products Excise Tax	(\$1,900)	(\$2,100)	(\$2,100)	(\$2,100)
Sales Tax on Cigarettes	\$1,500	\$1,700	\$1,700	\$1,700
Sales Tax (6.5%)	(\$800)	(\$800)	(\$800)	(\$800)
Nonsettlement Fee	<u>\$2,200</u>	<u>\$2,400</u>	<u>\$2,400</u>	<u>\$2,300</u>
General Fund Total	\$5,000	\$5,500	\$5,500	\$5,400
Little Cigars				
Cigarette Health Impact Fee	\$4,000	\$4,300	\$4,200	\$4,200
Tobacco Products Health Impact Fee	<u>(\$1,900)</u>	<u>(\$2,100)</u>	<u>(\$2,100)</u>	<u>(\$2,100)</u>
Health Impact Fund Total	\$2,100	\$2,200	\$2,100	\$2,100
Natural Resources and Arts Funds	(\$40)	(\$50)	(\$50)	(\$50)
Total – All Funds*	\$7,060	\$7,650	\$7,550	\$7,450

* The bill also changes the taxation of moist snuff, but the tax rates are left blank in the bill.

Effective July 1, 2013.

EXPLANATION OF THE BILL

Little Cigars

Little cigars in current law are subject to the tobacco products excise tax of 35% of the wholesale price and the tobacco products health impact fee of 35% of the wholesale price. Little cigars would continue to be considered a tobacco product, in the proposal, but a separate definition is provided for little cigars along with a separate tax provision. The proposal defines little cigars as any roll for smoking made in whole or in part of tobacco wrapped in any substance containing tobacco other than natural leaf tobacco, using an integrated cellulose acetate or similar filter, and weighing not more than four and one-half pounds per thousand. The proposal taxes little cigars at the same rate as cigarettes. Assuming the cigarette in-lieu sales tax and the cigarette nonsettlement fee qualify as successor cigarette tax provisions as provided in the proposal, the current tobacco products excise tax and fee on the wholesale price and the sales and use tax on tobacco products would be replaced with the cigarette excise tax of 48¢, the cigarette fee of 75¢, the cigarette in-lieu sales tax, and the cigarette nonsettlement fee.

EXPLANATION OF THE BILL (Cont.)

Moist Snuff

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 adds a definition of moist snuff and changes the tax base for moist snuff from wholesale price to weight. The excise tax rate would be an unspecified amount per ounce of moist snuff, and the additional health impact fee would be an equal amount per ounce, for a total of twice the unspecified rate. Any product weighing 1.2 ounces or less would be taxed at the total tax and fee amount. Proportionate tax and fee amounts would apply to any fractional parts in excess of 1.2 ounces. The proposal does not include a floor stocks tax. Monthly tax return reporting amounts are changed to include reporting on the number of ounces of moist snuff.

Nonsettlement Fee

The nonsettlement fee on cigarette nonparticipating manufacturers is increased from 1.75¢ per cigarette to 2.75¢ per cigarette (35¢ per pack to 55¢ per pack).

REVENUE ANALYSIS DETAIL

Little Cigars

- November 2012 forecast amounts are used. National data indicate that little cigar production is about 3% of cigarette production. It is estimated that 6,800,000 packs of little cigars would be sold in fiscal year 2014.
- The average wholesale price of little cigars is assumed to be 85¢ per pack in fiscal year 2014.
- Little cigar prices are assumed to grow at 2% annually (similar to cigarette price growth).
- It is assumed that little cigars, now defined as cigarettes, would be subject to the increased nonsettlement fee of 55¢ per pack.
- For this proposal, little cigars would be considered cigarettes since they weigh 4.5 pounds or less per thousand. The tax rate is \$1.23 for cigarettes (48¢ tax and 75¢ fee) that are not more than three pounds per thousand, but \$2.46 for cigarettes (96¢ tax and \$1.50 fee) over three pounds per thousand.
- Little cigars are currently produced at a weight of over three pounds per thousand and are subject to a federal excise tax at the large cigar rate of 52.75% of the sales price. Little cigars that are three pounds per thousand or less are subject the federal cigarette tax rate of \$1.01 per pack. It is assumed that the industry would continue to sell little cigars that are over three pounds per thousand, so the federal tax would continue to be 52.75% and the state cigarette tax and fee total of \$2.46 applies (along with the settlement fee and the in-lieu sales tax).
- The proposal would increase the price per pack of little cigars to be closer to the average price per pack of cigarettes. The significant increase in product price limits the use of elasticity factors. It is assumed that the little cigar market would be reduced to 20% of the current market, 45% of the market would substitute cigarettes for little cigars, and 35% of the little cigar retail market would be lost due to consumption reductions.

REVENUE ANALYSIS DETAIL (Cont.)

Nonsettlement Fee

- The fiscal year 2012 collections for the nonsettlement fee were \$2.76 million. It is estimated that there are approximately 8 million packs of cigarettes that will be impacted throughout the forecast period by the increase from 1.75¢ per cigarette to 2.75¢ per cigarette (35¢ per pack to 55¢ per pack).

All Estimates

- The fiscal year 2014 sales and excise tax estimates are adjusted for 11 months of collections.

Number of Taxpayers: There are approximately 175 wholesalers of other tobacco products and 50 wholesalers of cigarettes in Minnesota. Also, there are about 9,000 retailers of tobacco products.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx