MINNESOTA · REVENUE

CIGARETTE EXCISE TAX
TOBACCO PRODUCTS EXCISE TAX
Single Tax Rate for Cigarettes
Repeal Cigarette Tax Rate Indexing

April 1, 2014

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 2910 (Skoe) / H.F. 3303 (Anzelc)

	Fund Impact			
	F.Y. 2014	F.Y. 2015	F.Y. 2016	F.Y. 2017
	(000's)			
Cigarette Excise Tax – Single Tax Rate	$0	($50)	($50)	($50)
Cigarette Excise Tax – Indexing	$0	($2,500)	($9,000)	($14,700)
Cigarette Sales Tax	$0	($20)	($60)	($120)
Moist Snuff Excise Tax – Indexing	$0	($300)	($1,400)	($2,200)
General Fund Total	$0	($2,870)	($10,510)	($17,070)

Cigarette tax rate change effective July 1, 2014.
Repeal of indexing effective July 1, 2014.

EXPLANATION OF THE BILL

Current Law: The definition of a cigarette was expanded in 2013 to include any roll for smoking made wholly or in part of tobacco weighing 4.5 pounds or less per thousand that is wrapped in any substance containing tobacco, however labeled or named, which, because of the appearance, size, packaging, pricing, marketing, or labeling is likely to be offered to or purchased by consumers as a cigarette. This resulted in little cigars being taxed as cigarettes. There are two levels of cigarette excise tax rates based on weight. Cigarettes weighing not more than three pounds per thousand are subject to the excise tax of $2.83 per pack of 20. Cigarettes weighing more than three pounds per thousand are subject to an excise tax rate of $5.66 per pack of 20. Items weighing more than 4.5 pounds per thousand are subject to the 95% excise tax rate on other tobacco products.

A provision to index the rates per pack was enacted in 2013 along with the rate increase to $2.83 per pack. Current law provides for the first indexed rate to apply to sales made on or after January 1, 2015. The rate is indexed by multiplying the mill rates for the current calendar year by an adjustment factor based on the in-lieu of sales tax rate estimates, rounded to the nearest mill. For calendar year 2015, it is expected that the cigarette sales tax will increase from 51.2¢ per pack to 52.0¢ per pack and the cigarette excise tax rate will increase to approximately $2.89 per pack. In 2013 a minimum tax was imposed on each container of moist snuff equal to the rate imposed on a pack of 20 cigarettes.

EXPLANATION OF THE BILL (Cont.)

Proposed Law: The bill would eliminate the double excise tax rate, currently $5.66, on cigarettes weighing more than three pounds per thousand. All cigarettes would be subject to the cigarette excise tax rate of $2.83 per pack of 20.

The bill repeals the provision to index the tax rate on cigarettes. The cigarette excise tax rate would continue to be $2.83 per pack and the minimum tax on moist snuff would continue to be $2.83 per container.

REVENUE ANALYSIS DETAIL

Cigarette Tax Rate Change

- Very few cigarette-like products (e.g. little cigars) are being sold in Minnesota because they are subject to the cigarette excise tax rates of $2.83 or $5.66 depending on weight.
- Based on fiscal year-to-date cigarette tax returns, it is estimated that 18,500 packs of 20 little cigars will be sold in fiscal year 2014 that are subject to the $5.66 cigarette excise tax rate. It is assumed that consumption will decline by 2% annually.
- Removing the higher tax rate for cigarette-like products weighing 3 pounds to 4.5 pounds per thousand will likely cause more of these products to be sold. However, an increase would likely be offset by a reduction in cigarette sales or little cigars weighing up to 3 pounds per thousand, which are subject to the same tax rate of $2.83. No adjustment is made for possible changes to the $0.50 per pack non-settlement fee collections.
- The fiscal year 2015 estimates are adjusted for 11 months of collections.

Repeal Indexing – Cigarette Excise Tax and Minimum Tax on Moist Snuff

- February 2014 forecast amounts for cigarette and tobacco products excise taxes are used.
- The revenue gain for implementing indexing was estimated using an elasticity of -0.95 at the time the cigarette tax was increased by $1.60. The revenue gain is recalculated based on the February state forecast. The index has not yet been implemented and the loss due to the repeal of the indexing is assumed to be equal to the estimate of the gain.
- It is estimated that there will be approximately 160 million packs of cigarettes sold in fiscal year 2015. It is estimated that there will be approximately 25 million containers of moist snuff sold in fiscal year 2015.
- The fiscal year 2015 estimates are adjusted for 5 months of collections.

Number of Taxpayers: There are approximately 60 wholesalers of cigarettes and 160 wholesalers of other tobacco products in Minnesota. There are about 9,000 retailers of tobacco products.

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