

**TOBACCO PRODUCTS EXCISE
Out-of-State Cigars Exemption**

March 5, 2025

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | | X |

Department of Revenue
Analysis of S.F. 1388 (Hoffman) / H.F. 926 (Nash)

| | Fund Impact | | | |
|--------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>F.Y. 2026</u> | <u>F.Y. 2027</u> | <u>F.Y. 2028</u> | <u>F.Y. 2029</u> |
| | | (000's) | | |
| General Fund | (\$1,200) | \$0 | \$0 | \$0 |

Effective July 1, 2025.

EXPLANATION OF THE BILL

Current Law: A 95% of wholesale tax is imposed on all tobacco products, including cigars, manufactured or brought into the state. The tax on premium cigars is the lesser of 95% of the wholesale price or \$0.50 per premium cigar. A manufacturer or distributor can receive a credit or refund for any tobacco products tax paid on cigars shipped out of the state.

Proposed Law: The bill would create an upfront exemption from the tobacco products excise tax. Cigars intended to be shipped out of Minnesota would not be subject to the tobacco products excise tax when manufactured or brought into the state.

REVENUE ANALYSIS DETAIL

- Information on out-of-state credits from the Tobacco Products Excise Tax form TB301 was used.
- It is assumed that all types of cigars make up 12% of the total tobacco market.
- The change to an upfront exemption would lower tax revenue coming in, and later increase revenue by not having to provide credits or refunds. Fiscal year 2026 will see only a decrease, subsequent years will net to zero impact.
- It is assumed that most credits awarded occur during the same fiscal year as the initial tax paid, meaning there would be no fiscal year shift.
- It is assumed that one month's worth of non-premium cigar credits and one quarter's worth of premium cigar credits would cross fiscal years.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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