



ISSUE BRIEF - Cigarette & Tobacco Taxes

Updated: November 2020

STATE TAXES/FEES IMPOSED ON CIGARETTES:

Cigarettes used or sold in Minnesota are subject to both excise tax, an in-lieu sales tax and may also be subject to a fee imposed on certain manufacturers of cigarettes and tobacco. These state taxes and fees are paid by distributors or wholesalers when the products are received in Minnesota for sale.

The excise tax on cigarettes is levied at a (dollar) rate per 20-pack of cigarettes. From 2014 through 2017, the excise tax rate was annually adjusted for inflation. The rate in effect for 2017 will remain fixed at \$3.04 per pack of 20 and will no longer be subject to indexing. In addition to the excise tax rate, cigarettes are subject to an in-lieu sales tax. Effective January 1, 2021, the in-lieu sales tax is \$0.63 cents for each 20-pack of cigarettes. The in-lieu sales tax is annually adjusted for the change in the average retail price of cigarettes. For 2021, the total state tax rate (excise tax plus sales tax) per pack of 20 is \$3.67.

An additional fee of 50 cents per pack is imposed on cigarette manufacturers that were not a part of a settlement agreement with the state of Minnesota (i.e. companies other than Philip Morris USA and RJ Reynolds). For those manufacturers, the total state tax rate per 20-pack is \$4.17 after the non-settlement fee is imposed. This fee substitutes for the tobacco settlement monies that are being paid by Philip Morris USA and RJ Reynolds to the State of Minnesota.

Use and storage taxes are imposed on cigarettes that are also used or stored in Minnesota on which the sales tax had not been previously paid.

Minnesota Department of Revenue (DOR) reports that there are 47 cigarette distributors that remit these taxes to the state.

STATE TAXES/FEEs IMPOSED ON OTHER TOBACCO PRODUCTS:

The excise tax on tobacco products, unlike the per pack tax on cigarettes, is levied as a percentage of the price. The tobacco products excise tax is equal to 95 percent of the wholesale price. This excise tax also applies to vaping and e-cigarettes products.

The tobacco products tax on moist snuff and premium cigars contains additional calculations. For each container of moist snuff, for example, the tax is equal to 95 percent of the wholesale price with a minimum tax equal to the excise tax for 20-pack of cigarettes.¹ For premium cigars, the tobacco tax is equal to the lesser of: (1) the rate of 95 percent of the wholesale sales price of premium cigars or; (2) \$0.50 per premium cigar. All tobacco products are also subject to state sales and use taxes.

Minnesota Department of Revenue (DOR) reports that there are 259 tobacco distributors that remit these taxes to the state.

TOTAL COLLECTIONS & DISPOSITION OF CIGARETTE & TOBACCO STATE TAXES:

Prior to July 1, 2013, cigarette & tobacco tax revenues were deposited into three state funds: General Fund; Special Revenue Fund; and Health Impact Fund (HIF). From July 1, 2013 (FY 2014) to FY 2020, cigarette and tobacco product tax revenues continue to be deposited into the same funds as prior years except for the Health Impact Fund (HIF). HIF was repealed in 2014. Table A shows the actual revenue collected from cigarette and tobacco taxes from FY 2009 to FY 2020.

Table A - Historical Cigarette & Tobacco Tax Receipts												
<i>Dollars in Thousands, Fiscal Year</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cigarette (20-pack)												
Excise Tax (\$0.48), Net *	123,156	110,466	114,790	94,504	121,588							
Excise Tax (\$2.83), indexed rate						457,572						
Excise Tax (\$2.90), indexed rate							477,229					
Excise Tax (\$3.00), indexed rate								467,387				
Excise Tax (\$3.04), indexed/fixed rate									497,850	418,005	433,722	417,548
Floor Stocks Tax on Cigarettes						30,844	49,299	(45,779)	1,533		2,004	
Health Impact Fee (\$0.75)	190,373	191,880	178,769	185,152	164,927							
In Lieu Sales Tax (6.5%)	68,764	80,481	81,718	89,124	80,526							
In Lieu Sales Tax (6.875%)						83,297	86,911	86,475	87,978	80,630	83,025	79,527
Non Settlement Fee (\$0.35)	2,818	2,712	2,211	2,755	2,881							
Non Settlement Fee (\$0.50)	-	-	-	-	-	3,422	3,606	5,654	7,332	7,019	7,724	7,836
subtotal	385,111	385,539	377,488	371,535	369,922	575,135	617,045	513,737	594,693	505,654	526,475	504,911
Tobacco Products**												
Excise Tax (35% wholesale price)	21,251	23,569	24,603	30,474	27,657							
Excise Tax (95% wholesale price), Net	-	-	-	-	-	78,200	92,107	99,747	98,166	103,339	116,666	120,472
Health Impact Fee	21,281	23,479	24,552	22,664	26,283							
subtotal	42,532	47,048	49,155	53,138	53,940	78,200	92,107	99,747	98,166	103,339	116,666	120,472
Total Collected	427,643	432,587	426,643	424,673	423,862	653,335	709,152	613,484	692,859	608,993	643,141	625,383
*** Indexed rate in 2017, held constant in future years												
** Not included : (1) Sales tax on tobacco products not included in this table; and (2) Indian Tobacco Refunds.												
* Includes revenue deposited into the general fund and special revenue fund.												

¹ If the moist snuff container is more than 1.2 ounces, the tax is 15 percent of the wholesale price of the moist snuff container or \$3.04 multiplied by the ounces and divided by 1.2, whichever is greater.

All proceeds from cigarette and tobacco products taxes, in lieu sales tax and non settlement fee revenue are deposited into the unrestricted General Fund except for \$26.187 million which is deposited into two special revenue fund accounts on an on-going basis each fiscal year. Of the \$26.187 million, \$22.250 million is dedicated to the Academic Health Center at the University of Minnesota and \$3.937 million is dedicated to the Commissioner of Health for Medical Education Research Formula Grants.² In FY 2014 there was also a one-time deposit of the revenue from the cigarette floors stocks tax to a special account in the General Fund. Of the total cigarette floor stocks tax revenue in FY 2014, \$26.5 million was directed from the unrestricted General Fund to the general (stadium) reserve account³.

CIGARETTE & TOBACCO EXCISE TAX INCIDENCE:

The Minnesota Department of Revenue (DOR) computes the Suits Index for state taxes every two years in its Minnesota Tax Incidence Study. The Suits Index is defined as a summary measure of regressivity and progressivity and represented as a value between -1 and +1. A progressive tax has a positive Suits index in the range of 0 and +1, with +1 being the most progressive. A progressive tax is a tax in which the tax rate increases as the amount of taxable income increases. A regressive tax has a negative Suits index in the range of 0 and -1, with -1 being the most regressive. A regressive tax is a tax in which the tax rate decreases as the amount of taxable income increases. A Suits Index of zero indicates that the tax system is proportional.

DOR's 2017 Tax Incidence Study lists cigarette and tobacco taxes (Suits Index = -0.580) as the state's most regressive taxes and the table below shows the Suites Index for cigarette and tobacco taxes relative to all state taxes (Suits Index = 0.033). Also, cigarette and tobacco taxes are borne mostly by Minnesota residents who pay 98 percent of total collections.

TAX INCIDENCE	Percentage by Taxpayer Category			2016 Suits Index
	Resident	Non Resident	Business	Full Sample
2019–MN Cigarette/Tobacco Excise	98%	2%	0%	-0.580
2019 –All State Taxes	70%	5%	25%	0.033

Source: 2019 Minnesota Tax Incidence Study, Table 1-2 (page 9), Table 2-1 (page 26).

CURRENT LAW CIGARETTE TAX EXPENDITURES:

The State of Minnesota, Tax Expenditure Budget, published by DOR, defines tax expenditures as statutory provisions which reduce the amount of revenue that would otherwise be generated, including exemptions, deductions, credits or lower tax rates. Different types of tax expenditures provide different levels of tax savings for different taxpayers. For cigarette and tobacco taxes, there is one exemption for consumer purchases made out of state. For further reference, the Minnesota Department of Revenue publishes an analysis of tax expenditures every two-years in the Tax Expenditure Budget Report.

² Since FY 2018, these dedications have been deposited into a special revenue fund (2000) and the Medical Education and Research Account (1100) in the state accounting system (SWIFT).

³ The deposit of cigarette floor stocks tax in FY 2014 was authorized in [Laws of 2013, Chapter 143, Article 5, Section 25](#).

	Tax Expenditures (000's)				
	Enacted	2020	2021	2022	2023
Exemption					
Consumer Purchases Made Out of State	1949	\$48,200	\$48,700	\$49,200	\$49,700

Source: 2020 Minnesota Tax Expenditure Budget, page 166

MINNESOTA EXCISE TAXES COMPARED TO THE NEIGHBORING STATES:

This table compares the excise tax rate compared to bordering states. This table does not include any comparison of the application of sales tax on cigarette and tobacco products by bordering states.

STATE	CIGARETTES STATE TAX/PER PACK	TOBACCO PRODUCTS (CIGARS, CHEWING TOBACCO, E-CIGARETTES) STATE TAX BASED ON PRICE
IOWA	\$1.36	50% OF WHOLESALE PRICE
MINNESOTA*	\$3.04	95% OF WHOLESALE PRICE
NORTH DAKOTA	\$0.44	CIGARETTES & TOBACCO AT 28% OF WHOLESALE PRICE. EXCEPT, SNUFF & CHEW TOBACCO IS BASED ON WEIGHT AT 60 CENTS AND 16 CENTS PER OUNCE RESPECTIVELY.
SOUTH DAKOTA	\$1.53	35% WHOLESALE PRICE
WISCONSIN	\$2.52	71% OF MANUFACTURER'S PRICE
U.S.	\$1.70	NOT APPLICABLE

Source: FTA, Current Tax Rates, cigarettes, tobacco and e-cigarettes/vapor products as of January 1, 2020.

* For tobacco products, of the states listed in this table, only [Minnesota and Wisconsin](#) impose a tobacco excise tax on e-cigarettes and vapor products.

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