

HOUSE RESEARCH

Bill Summary

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Overview

This bill changes the definition of “cigarette” to include “little cigars.” The bill also imposes a minimum tax on “moist snuff” products, and adjusts the tax rates on cigarettes and other tobacco products. The excise tax increase for a pack of twenty cigarettes would equal \$1.60 after taking into account repeal of the health impact fee. The excise tax rate on other tobacco products would rise from 70 percent (including the health impact fee) to 95 percent of the wholesale price.

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- 1 Health impact fee.** This section updates Minnesota statutes to remove liability to withhold or remit taxes associated with the health impact fee, which is repealed by section 15.
- 2 Cigarette definition.** This section alters the definition of “cigarette.” Under the new definition, “little cigars” would be defined by law as a cigarette, as opposed to an “other tobacco product.” This definition is significantly similar to the federal definition of “cigarette.”
- 3 Moist snuff.** This section adds a definition for “moist snuff” products. Under section 7, a per-container minimum tax applies to moist snuff products.
- 4 Other tobacco products.** This section removes “little cigars” from the other tobacco products tax, because under the language of the bill, “little cigars” would be taxed under the same rate as other cigarettes.
- 5 Cigarette tax rate.** This section increases the tax on cigarettes from 24 mills to 141.5 mills per unit for cigarettes weighing not more than three pounds per thousand, and from 48 mills

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to 283 mills for cigarettes weighing more than three pounds per thousand. This is a per unit tax rate. The rate of tax per cigarette is 14.15 cents on the former and 28.3 cents on the latter.

- 6 Annual indexing.** This section requires the commissioner of revenue to adjust the tax rates on cigarettes and other tobacco products annually. This rate adjustment will be based on the change in the average price of cigarettes sold in Minnesota, the same basis used to annually set the in-lieu sales tax on cigarettes.
- 7 Other tobacco products tax rates.** This section increases the tax imposed on other tobacco products from 35 percent to 95 percent of the wholesale sales price of the product. A minimum tax on individual containers of moist snuff is imposed equal to the tax on a pack of 20 cigarettes. This minimum rate would apply to the sale of any product if 95 percent of the wholesale price of that product is less than the minimum tax.
- 8 Tobacco use tax.** This section raises the use tax on tobacco products from 35 percent to 95 percent of the cost to the consumer, or the minimum tax as outlined above.
- 9 Non-settlement fee.** This section adjusts the rate of the fee on cigarettes sold by manufacturers who are not required to pay a fee in connection with a legal settlement from 1.75 cents per cigarette to 2.5 cents per cigarette.
- 10 Cigarette sales tax.** This section alters the in-lieu sales tax on cigarettes to include the legacy (3/8th percent tax rate) sales tax. Under present law, the in-lieu sales tax excludes this additional tax imposed by the voters as a constitutional amendment.
- 11 Cigarette definition.** This section adjusts the definition in Minnesota Statutes, section 325D.32, subdivision 3, to include the new definition of cigarette. This definition will include “little cigars” in the definition for purposes of chapter 325D.
- 12 Floor stocks tax.** This section imposes a floor stock tax on cigarettes. This tax would be imposed on both the stamped cigarettes and unaffixed stamps in the person’s possession at 12:01 a.m., July 1, 2013. The rate of the tax imposed is 80 mills per cigarette. This section also gives the commissioner of revenue authority to conduct an audit to enforce this tax, as well as the ability to levy penalties. The proceeds from this section will be deposited to the general fund.
- 13 Interim sales tax.** This section requires the commissioner to adjust the weighted average retail price of cigarettes on July 1, 2013, which will be used to calculate the tax rate imposed until December 31, 2013. This, in effect, will immediately incorporate the likely price effects of the excise and health impact fee changes made by the bill in the in-lieu sales tax rate. On January 1, 2014, the commission will resume annual adjustments to the weighted average retail price, occurring on January 1 of each calendar year.
- 14 Tobacco tax collection report.** This section requires the commissioner of revenue to report to the 2014 legislature on the tobacco tax collection system, including recommendations to improve compliance of all tobacco tax programs. This report will be due by January 1, 2014.

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Repealer. This section repeals the health impact fee on cigarettes and tobacco products and the health impact fund. The only monies deposited in the fund are the revenues from the health impact fee. These revenues are transferred to the general fund after the certification of the amount of state health care costs.