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**SFA****BILL ANALYSIS**

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Senate Bill 1360 (as introduced 5-23-02)  
Sponsor: Senator Joel D. Gougeon  
Committee: Finance

Date Completed: 5-29-02

### **CONTENT**

The bill would amend the Tobacco Products Tax Act to increase the tax on cigarettes by 25 cents per pack; and dedicate the revenue from the increase to the Healthy Michigan Fund and the Countercyclical Budget and Economic Stabilization Fund (BSF) for specified years. The tax increase would apply beginning July 1, 2002.

Currently, the Act taxes cigarettes at 75 cents per pack, and dedicates the revenue to the State School Aid Fund (63.4%); the State's General Fund (25.3%); the Healthy Michigan Fund (6%); and the Health and Safety Fund (5.3%). The bill would not alter these provisions, but would dedicate revenue from the 25-cent per pack increase in the following manner:

- To the Healthy Michigan Fund for fiscal years ending September 30, 2002, 2003, 2004, and 2007, and each subsequent fiscal year.
- For fiscal years ending September 30, 2005, and 2006, 94% of the revenue to the BSF and 6% to the Healthy Michigan Fund.

(The Healthy Michigan Fund was created under Part 59a of the Public Health Code and may be spent only for the purposes described in Article 9, Section 36 of the State Constitution, and as prescribed in Part 59a. Article 9, Section 36 requires that 6% of the proceeds of the tax on tobacco products be dedicated to improving the quality of health care of State residents.)

MCL 205.427 & 205.432

Legislative Analyst: George Towne

### **FISCAL IMPACT**

This bill would increase the price of cigarettes, reduce the number of packs sold, increase net cigarette tax revenue, and increase the sales tax generated from cigarette sales. The fiscal impact would affect both State and local governments, as well as the commission paid to cigarette wholesalers for collecting the tax. The estimated fiscal impact is summarized in the table below.

#### State Government

Increasing the cigarette tax \$0.25 a pack, would generate an estimated \$23 million in FY 2001-02 and \$181 million in FY 2002-03 based on the present volume of sales; however, because the number of packs of cigarettes purchased would decline due to the higher price, the amount of revenue collected under the existing tax of \$0.75 per pack would decline. As a result, it is estimated this bill would generate a net increase in cigarette tax revenue of \$20 million in FY 2001-02 and \$163 million in FY 2002-03. Because cigarette sales would decline and the distribution of the revenue from the existing \$0.75 per pack tax would not change, the cigarette tax revenue going to the School Aid Fund, General Fund, and Health and Safety Fund would decline compared with current law, as shown in the following table. Cigarette tax revenue going to the Healthy Michigan Fund would increase dramatically because the new revenue from the \$0.25 per pack tax increase would be earmarked to this Fund (except in FY 2004-05 and FY 2005-06, when 94% of the revenue would go to the BSF).

The sales tax on cigarettes is calculated on the price including the State cigarette tax. As a result, the \$0.25 per pack tax increase also would increase sales tax collections by an estimated \$0.3 million in FY 2001-02 and \$4.4 million in FY 2002-03.

Local Government

Due to the estimated increase in sales tax collections, the amount of sales tax collections earmarked to revenue sharing to local governments would increase an estimated \$0.1 million in FY 2001-02 and \$1.5 million in FY 2002-03.

Wholesalers' Collection Commission

A commission is paid to cigarette wholesalers for collecting the State cigarette tax. The commission is equal to 1.25% of the tax collected. Because this bill would increase the amount of the cigarette tax and the amount of tax collected, the commission paid to wholesalers would increase an estimated \$0.3 million in FY 2001-02 and \$2.4 million in FY 2002-03.

<b>Estimated Fiscal Impact of SB 1360</b>						
(dollars in millions)						
	FY 2001-02			FY 2002-03		
	Current Law	SB 1360	Change	Current Law	SB 1360	Change
Gross Cigarette Tax Revenue	\$586.2	\$606.1	\$19.9	\$566.8	\$732.3	\$165.5
Wholesaler Commissions	7.0	7.3	0.3	6.8	9.2	2.4
Net Cigarette Tax Revenue	\$579.2	\$598.8	\$19.6	\$560.0	\$723.1	\$163.1
Distribution:						
School Aid Fund	\$367.2	364.8	(\$2.4)	\$355.0	\$343.8	(\$11.2)
General Fund	146.5	145.6	(0.9)	141.7	137.2	(4.5)
Health & Safety Fund	30.7	30.5	(0.2)	29.7	28.7	(0.9)
Healthy MI Fund	34.8	57.9	23.1	33.6	213.3	179.7
Sales Tax from Cigarettes	\$165.7	\$166.0	\$0.3	\$162.1	\$168.1	\$6.0
Distribution:						
School Aid Fund	\$121.4	\$121.7	\$0.2	\$118.8	\$123.2	\$4.4
Revenue Sharing	40.4	40.5	0.1	39.6	41.0	1.5
General Fund	3.8	3.8	0.0	3.7	3.9	0.1
Net Distribution of Cigarette & Sales Tax:						
School Aid Fund	\$488.7	\$486.5	(\$2.1)	\$473.9	\$467.0	(\$6.8)
General Fund	150.3	149.4	(0.9)	145.4	141.1	(4.3)
Health & Safety Fund	30.7	30.5	(0.2)	29.7	28.7	(0.9)
Healthy MI Fund	34.8	57.9	23.1	33.6	213.3	179.7
Revenue Sharing	40.4	40.5	0.1	39.6	41.0	1.5
Wholesaler Commissions	7.0	7.3	0.3	6.8	9.2	2.4

Fiscal Analyst: Jay Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.