

Legislative Analysis



INCREASE TAX ON TOBACCO PRODUCTS

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House Bill 5632 (H-7) As Passed The House

Sponsor: Rep. Larry Julian

Committee: Commerce

Complete to 5-27-04

A SUMMARY OF HOUSE BILL 5632 (H-7)

House Bill (HB) 5632 (H-7) would amend the Tobacco Products Tax Act to increase the tax on cigarettes from \$1.25 to \$2.00 per pack. This increase would be in effect for the July 1, 2004 through June 30, 2007 period.

This bill would earmark the cigarette tax to essentially hold harmless the Health and Safety Fund and Wayne County for FY 2003-04 and for FY 2004-05. In addition, under current law, for fiscal years (FY) 2004-05 through FY 2006-07, 17.808% of the \$1.25 cigarette tax and 18.4% of the 20% tax on other tobacco products would be earmarked to the Countercyclical Budget and Economic Stabilization Fund (BSF or rainy day fund). This bill would remove the earmark to the BSF and instead dedicated this revenue to the Medicaid Trust Fund.

The earmark of the \$2.00 per pack cigarette tax would be as follows: 9.923% to the General Fund/General Purpose (GF/GP), 39.850% to the School Aid Fund (SAF), 2.363% to the Health and Safety Fund, 6.975% to the Healthy Michigan Fund, 40.350% to the Medicaid Trust Fund, and 0.540% to counties with a population greater than 2,000,000 (Wayne County) to be used for indigent health care. This earmark of the cigarette tax would be effective July 1, 2004, with the exception of the July 1, 2004 through September 30, 2004 period. During this period 91.4% of the new \$0.75 would be credited to the GF/GP instead of the Medicaid Trust Fund. The bill also includes a \$30.0 million allocation, subject to an appropriation, from the Medicaid Trust Fund to the Department of Community Health to be used as specified in the bill. Also specified in the bill is a distribution (approximately \$4.0 million annually) from the GF/GP for anti-cigarette smuggling enforcement.

A collection commission is paid to cigarette and other tobacco products wholesalers to collect the tobacco products tax. The collection commission is 1.5% of the tax collected for cigarette wholesalers and 1.0% of the tax collected for other tobacco products wholesalers.

FISCAL IMPACT:

The fiscal impact of House Bill 5632 (H-7) is as follows:

- 1) increase revenue from the cigarette tax by an estimated \$66.0 million in FY 2003-04 and by an estimated \$301.9 million in FY 2004-05,
- 2) remove the other tobacco products earmark to the BSF and instead earmark the revenue to the GF/GP,
- 3) increase revenue from the sales tax by a minimal amount in FY 2003-04 and reduce revenue from the sales tax by a minimal amount in FY 2004-05, and
- 4) increase the commission paid to the cigarette wholesalers' by an estimated \$0.9 million in FY 2003-04 and \$4.3 million in FY 2004-05.

The table below depicts the fiscal impact of HB 5632 (H-7) by fund for FY 2003-04 and FY 2004-05.

Fiscal Impact of HB 5632 (H-7) As Passed the House								
Millions of Dollars								
FY 2003-04								
	GF-GP	SAF	Health & Safety	Healthy Michigan	Medicaid Trust Fund	Wayne County	BSF	Total
New Cigarette Tax Revenue	\$50.1	-\$0.3	\$0.0	\$6.3	\$9.9	\$0.0	\$0.0	\$66.0
FY 2004-05								
	GF-GP	SAF	Health & Safety	Healthy Michigan	Medicaid Trust Fund	Wayne County	BSF	Total
Net Cigarette Tax Revenue	-\$10.1	-\$0.5	\$0.2	\$28.9	\$433.4	\$0.1	-\$150.1	\$301.9
Net Other Tobacco Tax Revenue	\$3.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	-\$3.9	\$0.0
Total Cigarette Sales and OTP	-\$6.2	-\$0.1	\$0.2	\$28.9	\$433.4	\$0.1	-\$154.0	\$301.9

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.