

Legislative Analysis



INCREASE TAX ON TOBACCO PRODUCTS

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House Bill 5632 as enrolled

Public Act 164 of 2004

Sponsor: Rep. Larry Julian

House Committee: Commerce (Discharged)

Senate Committee: None (Referred to Committee of the Whole)

Complete to 7-22-04

A SUMMARY OF HOUSE BILL 5632 AS ENROLLED

House Bill 5632 amended the Tobacco Products Tax Act to increase the tax on cigarettes from \$1.25 to \$2.00 per pack and to increase the tax on other tobacco products from 20% to 32% of the wholesale price on July 1, 2004.

This bill earmarked the cigarette and other tobacco products tax to essentially hold harmless the Health and Safety Fund and Wayne County. 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 removed the earmark to the BSF and instead dedicated this revenue to the Medicaid Trust Fund.

For the July 1, 2004 through September 30, 2005 period, the earmark of the \$2.00 per pack cigarette tax would be as follows: 10.388% to the General Fund/General Purpose (GF/GP), 41.620% to the School Aid Fund (SAF), 2.438% to the Health and Safety Fund, 3.750% to the Healthy Michigan Fund, 41.250% to the Medicaid Trust Fund, and 0.555% to counties with a population greater than 2,000,000 (Wayne County) to be used for indigent health care.

Beginning October 1, 2005, 75.0% of the proceeds from the \$0.75 increase would be credited to the Medicaid Trust Fund and 25% would be credited to the GF/GP. Beginning FY 2005-06, the earmark of the \$2.00 per pack cigarette tax would be as follows: 19.7625% to the GF/GP, 41.620% to the SAF, 2.438% to the Health and Safety Fund, 3.750% to the Healthy Michigan Fund, 31.875% to the Medicaid Trust Fund, and 0.555% to Wayne County.

The earmark of the 32% tax on other tobacco products would be as follows: 100.0% to the Medicaid Trust Fund from July 1, 2004 through September 30, 2005 and beginning October 1, 2005, 75.0% to the Medicaid Trust Fund and 25.0% to the GF/GP.

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 is as follows:

- 1) increase revenue from the cigarette tax by an estimated \$93.8 million (\$63.8 million from the cigarette tax and \$30.0 million from the tax on inventory) in FY 2003-04 and by an estimated \$302.1 million in FY 2004-05,
- 2) increase revenue from the other tobacco products tax by an estimated \$3.2 million (\$2.6 million from the other tobacco products tax and \$0.6 million from the tax on inventory) in FY 2003-04 and by an estimated \$11.5 million in FY 2004-05,
- 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 by fund.

Fiscal Impact of Senate Passed HB 5632 (S-11)
Millions of Dollars

	FY 2003-04							
	GF-GP	SAF	Health & Safety	Healthy Michigan	Medicaid			Total
					Trust Fund	Wayne County	BSF	
New Cigarette Tax Revenue	-\$33.7	\$4.2	\$0.2	-\$1.6	\$94.6	\$0.1	\$0.0	\$63.8
Cigarette Inventory Tax Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$30.0	\$0.0	\$0.0	\$30.0
Subtotal Cigarette & Inventory Tax	-\$33.7	\$4.2	\$0.2	-\$1.6	\$124.6	\$0.1	\$0.0	\$93.8
New Other Tobacco (OTP) Tax	-\$0.8	-\$3.4	\$0.0	-\$0.3	\$7.1	\$0.0	\$0.0	\$2.6
Other Tobacco Inventory Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.6	\$0.0	\$0.0	\$0.6
Subtotal OTP & Inventory Tax	-\$0.8	-\$3.4	\$0.0	-\$0.3	\$7.7	\$0.0	\$0.0	\$3.2
Total Cigarette Sales and OTP	-\$34.5	\$0.8	\$0.2	-\$1.9	\$132.3	\$0.1	\$0.0	\$97.0

	FY 2004-05							
	GF-GP	SAF	Health & Safety	Healthy Michigan	Medicaid			Total
					Trust Fund	Wayne County	BSF	
Net Cigarette Tax Revenue	-\$9.0	\$19.7	\$1.1	-\$7.6	\$447.7	\$0.3	-\$150.1	\$302.1
Net Other Tobacco Tax Revenue	\$0.0	-\$16.0	\$0.0	-\$1.3	\$32.7	\$0.0	-\$3.9	\$11.5
Total Cigarette Sales and OTP	-\$9.0	\$3.7	\$1.1	-\$8.9	\$480.4	\$0.3	-\$154.0	\$313.6

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