

Legislative Analysis



INCREASE TAX ON TOBACCO PRODUCTS

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5632 (H-7)
Sponsor: Rep. Larry Julian
Committee: Commerce

Complete to 5-26-04

A REVISED 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 and to increase the tax on other tobacco products from 20% to 32% of the wholesale price on July 1, 2004.

This bill would earmark the cigarette and other tobacco products tax to essentially hold harmless the School Aid Fund (SAF), the Health and Safety Fund, and Wayne County for FY 2003-04 and to hold harmless the General Fund/General Purpose (GF/GP), the SAF, Health and Safety Fund, and Wayne County 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 GF/GP, 39.850% to the 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.

The earmark of the 32% tax on other tobacco products would be as follows: 44.0% to the GF/GP, 50.0% to the SAF, and 6.0% to the Healthy Michigan Fund.

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 \$96.0 million (\$66.0 million from the cigarette tax and \$30.0 million from the tax on inventory) in FY 2003-04 and by an estimated \$301.9 million in FY 2004-05,
- 2) increase revenue from the other tobacco products tax by an estimated \$3.0 million (\$2.4 million from the other tobacco products tax and \$0.6 million from the tax on inventory) in FY 2003-04 and by an estimated \$11.6 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 (H-7) by fund for FY 2003-04 and FY 2004-05.

Fiscal Impact of HB 5632 (H-7)
Millions of Dollars

	FY 2003-04							
	GF-GP	SAF	Health & Safety	Healthy Michigan	Medicaid			Total
					Trust Fund	Wayne County	BSF	
New Cigarette Tax Revenue	\$50.0	-\$0.4	\$0.0	\$6.4	\$9.9	\$0.0	\$0.0	\$66.0
Cigarette Inventory Tax Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$30.0	\$0.0	\$0.0	\$30.0
Subtotal Cigarette & Inventory Tax	\$50.0	-\$0.4	\$0.0	\$6.4	\$39.9	\$0.0	\$0.0	\$96.0
New Other Tobacco (OTP) Tax	\$2.2	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$2.4
Other Tobacco Inventory Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.6	\$0.0	\$0.0	\$0.6
Subtotal OTP & Inventory Tax	\$2.2	\$0.1	\$0.0	\$0.1	\$0.6	\$0.0	\$0.0	\$3.0
Total Cigarette Sales and OTP	\$52.2	-\$0.3	\$0.0	\$6.5	\$40.5	\$0.0	\$0.0	\$99.0

	FY 2004-05							
	GF-GP	SAF	Health & Safety	Healthy Michigan	Medicaid			Total
					Trust Fund	Wayne County	BSF	
Net Cigarette Tax Revenue	-\$14.4	-\$0.5	\$0.2	\$29.3	\$437.3	\$0.1	-\$150.1	\$301.9
Net Other Tobacco Tax Revenue	\$14.4	\$0.4	\$0.0	\$0.7	\$0.0	\$0.0	-\$3.9	\$11.6
Total Cigarette Sales and OTP	\$0.0	-\$0.1	\$0.2	\$30.0	\$437.3	\$0.1	-\$154.0	\$313.5

Fiscal Analyst: Rebecca Ross

■ 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.