

Legislative Analysis



INCREASE TAX ON TOBACCO PRODUCTS

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House Bill 5632

Sponsor: Rep. Larry Julian

Committee: Commerce

Complete to 4-20-04

A REVISED SUMMARY OF HOUSE BILL 5632 AS INTRODUCED 3-10-04

House Bill (HB) 5632 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 October 1, 2004.

This bill would earmark the cigarette and other tobacco products tax to hold harmless the General Fund/General Purpose (GF/GP), the School Aid Fund (SAF), the Health and Safety Fund, and Wayne County effective October 1, 2004. 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. The earmark of the \$2.00 per pack cigarette tax would be as follows: 10.388% to the GF/GP, 41.62% to the SAF, 2.438% to the Health and Safety Fund, 7.275% to the Healthy Michigan Fund, 37.725% 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. 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 is as follows:

- 1) increase revenue from the cigarette tax by an estimated \$35.1 million in FY 2003-04 and by an estimated \$284.3 million (\$254.3 million from the cigarette tax and \$30.0 million from the tax on inventory) in FY 2004-05,
- 2) increase revenue from the other tobacco products tax by an estimated \$0.9 million in FY 2003-04 and by an estimated \$10.8 million (\$10.2 million from the other tobacco products tax and \$0.6 million from the tax on inventory) 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 \$4.1 million in FY 2004-05.

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

| Fiscal Impact of HB 5632 (As Introduced) | | | | | | | | |
|--|---------------|-----------------|------------------|---------------------|----------------|--------------|-----------------|----------------|
| Millions of Dollars | | | | | | | | |
| FY 2003-04 | | | | | | | | |
| GF-GP | SAF | Health & Safety | Healthy Michigan | Medicaid Trust Fund | Wayne County | BSF | Total | |
| Net Cigarette Tax Revenue | \$11.6 | \$19.0 | \$1.1 | \$2.1 | \$1.0 | \$0.3 | \$0.0 | \$35.1 |
| Net Other Tobacco Tax Revenue | \$0.2 | \$0.7 | \$0.0 | \$0.1 | \$0.0 | \$0.0 | \$0.0 | \$0.9 |
| Total Cigarette Sales and OTP | \$11.7 | \$19.7 | \$1.1 | \$2.2 | \$1.0 | \$0.3 | \$0.0 | \$36.0 |
| FY 2004-05 | | | | | | | | |
| GF-GP | SAF | Health & Safety | Healthy Michigan | Medicaid Trust Fund | Wayne County | BSF | Total | |
| New Cigarette Tax Revenue | -\$14.0 | \$0.0 | \$0.0 | \$29.3 | \$389.1 | \$0.0 | -\$150.1 | \$254.3 |
| Cigarette Inventory Tax Revenue | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$30.0 | \$0.0 | \$0.0 | \$30.0 |
| Subtotal Cigarette & Inventory Tax | -\$14.0 | \$0.0 | \$0.0 | \$29.3 | \$419.1 | \$0.0 | -\$150.1 | \$284.3 |
| New Other Tobacco (OTP) Tax | \$13.8 | -\$0.3 | \$0.0 | \$0.6 | \$0.0 | \$0.0 | -\$3.9 | \$10.2 |
| Other Tobacco Inventory Revenue | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.6 | \$0.0 | \$0.0 | \$0.6 |
| Subtotal OTP & Inventory Tax | \$13.8 | -\$0.3 | \$0.0 | \$0.6 | \$0.6 | \$0.0 | -\$3.9 | \$10.8 |
| Total Cigarette Sales and OTP | -\$0.2 | -\$0.3 | \$0.0 | \$29.9 | \$419.7 | \$0.0 | -\$154.0 | \$295.1 |

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.