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House Bill 5632 (Substitute H-7 as passed by the House)
Sponsor: Representative Larry Julian
House Committee: Commerce

CONTENT

The bill would amend the Tobacco Products Tax Act to do the following:

- Increase the tax on cigarettes by an additional 37.5 mills per cigarette (or 75 cents per pack) beginning July 1, 2004, through June 30 2007.
- Dedicate 1% of the proceeds from the additional 37.5 mills to anti-cigarette smuggling enforcement; and allocate the balance as follows: 8.6% to the Healthy Michigan Fund; and 91.4% to the General Fund through September 30, 2004, and to the Medicaid Benefits Trust Fund after that date.
- Revise the distribution of the proceeds from 37.5 mills and 15 mills of the existing cigarette tax.

Before August 30, 2004, every licensee and retailer would have to file an inventory of cigarettes on which the existing tax had been paid (less the number that would be sold in an average two-week period), and pay a tax equal to the difference between that amount and the amount including the additional 37.5 mills. The proceeds would have to be credited to the General Fund.

MCL 205.427 & 205.432

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The fiscal impacts of the major features of this bill are summarized below.

Cigarette Tax Increase. The \$0.75 cigarette tax increase, which would go into effect July 1, 2004, would generate additional revenue of \$64 million in FY 2003-04 and \$303 million in FY 2004-05, as shown in the table below.

Inventory Tax. Under this bill, a tax of \$0.75 per pack would be assessed on cigarettes held in inventory on July 1, 2004, by each wholesaler and retailer; however, this inventory tax would apply only to inventories that are in excess of the average number of packs they sell during a two-week period during the six months prior to July 1, 2004. Given the average amount of packs sold during a two-week period and inventory levels, it is estimated that essentially no revenue would be generated under the inventory tax. Wholesalers and retailers, however, potentially could benefit from the lack of an inventory tax. Wholesalers and retailers would be able to increase the price on the cigarettes held in inventory on July 1, 2004, to reflect the \$0.75 cent tax increase, even though they would not have to pay the tax on these cigarettes. As a result, if wholesalers and retailers increased the price on these cigarettes the full \$0.75 per pack, they would realize a one-time gain in revenue of an estimated \$30 million.

Wholesaler Collection Allowance. Wholesalers retain 1.5% of the cigarette tax they collect to cover the costs they incur in collecting the tax. This bill does not propose to change the 1.5% collection allowance, but the dollar amount wholesalers would receive from the collection allowance would increase because the amount of tax they collect would increase. It is estimated that the collection allowance retained by wholesalers would increase by \$1.0

million in FY 2003-04, from \$13.3 million under current law to \$14.3 million, and in FY 2004-05, it would increase an estimated \$4.6 million, from \$13.2 million to \$17.8 million. This increase would be in addition to the potential one-time \$30 million gain resulting from the effective absence of an inventory tax.

Distribution of the Revenue Increase

FY 2003-04. As shown in the table, of the estimated \$64 million in new revenue that would be generated in FY 2003-04, most of it would go to the General Fund. In addition to a direct unrestricted increase of \$49.1 million going to the General Fund, an additional \$0.9 million would go the General Fund, but it would have to be used to fund increased smuggling enforcement. Of the remaining new revenue, \$9.6 million would go to the Medicaid Benefits Trust Fund and \$6.2 million would go the Healthy Michigan Fund. School Aid Fund revenue would decline \$1.8 million.

FY 2004-05. Under current law, the Budget Stabilization Fund (BSF) will receive an estimated \$154 million in tobacco tax revenue, but under the bill the BSF would not receive any money. Instead, it is proposed this \$154 million, along with most of the \$303 million in new cigarette tax revenue would go to the Medicaid Benefits Trust Fund. In total, it is estimated that the amount allocated to the Medicaid Benefits Trust Fund would increase \$433.8 million. Of this amount, \$30 million would allocated to finance a 4% increase in Medicaid payment rates and the remaining amount would be paid to hospitals that received less than \$900,000 in disproportionate share hospital payments in FY 2002-03. In addition, it is estimated that the allocation going to the Healthy Michigan Fund would increase \$29 million, and \$4.3 million would be allocated to the General Fund to finance increased smuggling enforcement. The unrestricted allocation to the General Fund would decline an estimated \$5.0 million and the School Aid Fund share would decline \$5.5 million.

ESTIMATED FISCAL IMPACT OF H.B. 5632 (H-7)
 \$0.75/Pack Cigarette Tax Increase Effective July 1, 2004
 No Change in Tax on Other Tobacco Products
 (dollars in millions)

Fund	FY 2003-04			FY 2003-04		
	Current Law	HB 5632	Change	Current Law	HB 5632	Change
Tobacco Tax Revenue:						
Cigarette Tax	\$855.7	\$919.8	\$64.1	\$843.0	\$1,146.0	\$303.0
Other Tobacco Products Tax	21.1	21.1	0.0	21.1	21.1	0.0
Inventory Tax	0.0	0.0	0.0	0.0	0.0	0.0
Total	\$876.8	\$940.9	\$64.1	\$864.1	\$1,167.1	\$303.0
Distribution:						
GF/GP	\$286.2	\$335.3	\$49.1	\$128.0	\$123.0	(5.0)
GF/GP Smuggling Enforcement	0.0	0.9	0.9	0	4.3	4.3
SAF	479.6	477.8	(1.8)	472.7	467.2	(5.5)
Health & Safety	27.2	27.2	0.0	26.8	27.1	0.3
Healthy Michigan	52.6	58.8	6.2	51.8	80.8	29.0
Wayne County	6.2	6.2	0.0	6.1	6.2	0.1
Medicaid Trust	25.1	34.6	9.6	24.7	458.5	433.8
BSF	0.0	0.0	0.0	154.0	0.0	(154.0)
Total	\$876.8	\$940.9	\$64.1	\$864.1	\$1,167.1	\$303.0

Date Completed: 5-28-04

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.