

INCREASE TAX ON TOBACCO PRODUCTS



Telephone: (517) 373-8080

Facsimile: (517) 373-5874

www.house.state.mi.us/hfa

FISCAL ANALYSIS

Mitchell Bean, Director

124 N. Capitol Avenue

4-N HOB Lansing, MI

HOUSE BILL 5248 (H-10)

Sponsor: Rep. Keith Stallworth

House Committee: Tax Policy

REVISED FLOOR ANALYSIS - 7/8/02

Analyst(s): Rebecca Ross

SUMMARY

House Bill (HB) 5248 (H-10) would amend the Tobacco products tax act to increase the tax on cigarettes from \$0.75 per pack to \$1.25 per pack and to increase the tax on other tobacco products from 16% of the wholesale price to 20% of the wholesale price on August 1, 2002.

House Bill 5248 would earmark \$0.30 of the increase as follows: 4.6% (or approximately 1 cent) to the School Aid Fund (SAF), 6.0% (or approximately 2 cents) to the Healthy Michigan Fund, 3.0% (or approximately 1 cent) to counties with a population greater than 2,000,000 to be used for indigent health care, and 12.2% (or approximately 4 cents) to the Medicaid Trust Fund. In addition, for the period beginning August 1, 2002, and ending September 30, 2004, 74.2% (or approximately 22 cents) would go the General Fund/General Purpose (GF/GP). For fiscal years (FY) 2004-05 through FY 2006-07, 74.2% of the \$0.30 increase would no longer go the GF/GP, but would instead be credited to the Countercyclical Budget and Economic Stabilization Fund (BSF). Under the bill, the proceeds from the \$0.20 increase would be earmarked as follows: 94% (or approximately 19 cents) to the SAF and 6% (or approximately 1 cent) to the Healthy Michigan Fund.

House Bill 5248 would earmark the 20% tax on other tobacco products as follows: 75.6% to the SAF, 6% to the Healthy Michigan Fund, and, for the period beginning August 1, 2002, and ending September 30, 2004, 18.4% would go the GF/GP. For fiscal years (FY) 2004-05 through FY 2006-07, 18.4% of 20% would no longer go the GF/GP, but would instead be credited to the BSF.

A collection commission is paid to cigarette and other tobacco products wholesalers to collect the tobacco products tax. This bill would increase the commission percentage to cigarette wholesalers from 1.25% to 1.50% of the tax collected.

Fiscal Impact

House Bill 5248 would have the following revenue impacts:

- 1) increase revenue from the cigarette tax by an estimated \$56.1 million (\$23.0 million from the tax on inventory and \$33.1 million from the cigarette tax) in FY 2001-02 and \$282.4 million in FY 2002-03,
- 2) increase revenue from the other tobacco products tax by an estimated \$1.4 million (\$0.7 million from the tax on inventory and \$0.7 million from the other tobacco products tax) in FY 2001-02 and \$4.0 million in FY 2002-03,
- 3) increase revenue from the sales tax by an estimated \$1.4 million in FY 2001-02 and \$5.1 million in FY 2002-03, and
- 4) increase the commission paid to the cigarette wholesalers' by an estimated \$0.7 million in FY 2001-02 and \$5.7 million in FY 2002-03.

The table below depicts the fiscal impact of HB 5248 by fund for FY 2001-02 and FY 2002-03.

Fiscal Impact of HB 5248 (H-10)

Millions of Dollars

FY 2002								
	GF-GP	SAF	Health & Safety	Healthy Michigan	Revenue Sharing	Medicaid Trust Fund	Wayne County	Total
New Cigarette Tax Revenue	\$16.5	\$11.3	-\$0.5	\$2.0	\$0.0	\$3.1	\$0.8	\$33.1
Inventory Tax Revenue	\$23.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$23.0
Subtotal Cigarette and Inventory Tax	\$39.5	\$11.3	-\$0.5	\$2.0	\$0.0	\$3.1	\$0.8	\$56.1
New Sales Tax Revenue	\$0.0	\$1.0	\$0.0	\$0.0	\$0.3	\$0.0	\$0.0	\$1.4
Total Cigarette and Sales Tax	\$39.5	\$12.3	-\$0.5	\$2.0	\$0.3	\$3.1	\$0.8	\$57.5
Other Tobacco	\$0.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7
Other Tobacco Inventory	\$0.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7
Total Other Tobacco	\$1.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.4
Total Cigarette Sales and OTP	\$40.9	\$12.3	-\$0.5	\$2.0	\$0.3	\$3.1	\$0.8	\$58.9

FY 2003								
	GF-GP	SAF	Health & Safety	Healthy Michigan	Revenue Sharing	Medicaid Trust Fund	Wayne County	Total
New Cigarette Tax Revenue	\$136.2	\$101.4	-\$2.9	\$16.9	\$0.0	\$24.7	\$6.1	\$282.4
Inventory Tax Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Cigarette	\$136.2	\$101.4	-\$2.9	\$16.9	\$0.0	\$24.7	\$6.1	\$282.4
New Sales Tax Revenue	\$0.2	\$3.7	\$0.0	\$0.0	\$1.2	\$0.0	\$0.0	\$5.1
Total Cigarette and Sales Tax	\$136.4	\$105.2	-\$2.9	\$16.9	\$1.2	\$24.7	\$6.1	\$287.5
Other Tobacco	\$3.9	-\$0.1	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$4.0
Total Cigarette Sales and OTP	\$140.2	\$105.1	-\$2.9	\$17.2	\$1.2	\$24.7	\$6.1	\$291.5