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BILL ANALYSIS

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Senate Bill 1004 (as enacted)
Sponsor: Senator Arlan Meekhof
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 325 of 2012

Date Completed: 11-19-12

CONTENT

The bill amended the Tobacco Products Tax Act to do the following:

-- **Limit the tax on cigars to 50 cents per cigar for four years.**
-- **Require retailers to post signs regarding the obligation to pay taxes on cigars purchased through catalog or internet sales.**

The Act provides that the tax on cigars, noncigarette smoking tobacco, and smokeless tobacco is 32% of the wholesale price. The bill states that, beginning November 1, 2012, and through October 31, 2016, the amount of tax levied on cigars under this provision may not exceed 50 cents per individual cigar.

Under the Act, documents related to the sale of cigarettes through the internet, by telephone, or by mail-order must indicate whether sales taxes and taxes levied under the Act have been paid, and cigarette packages must inform buyers that they are legally responsible for all applicable unpaid State taxes on cigarettes shipped from outside the State.

Beginning November 1, 2012, the bill also requires a retailer that is licensed as an unclassified acquirer, retail importer of tobacco products other than cigarettes, to post a sign that informs purchasers of cigars through catalog sales or internet sales of their responsibility to pay all applicable unpaid State taxes on those cigars. The sign must be visible to the public inside the retail establishment.

The bill took effect on October 9, 2012.

MCL 205.427 & 205.431

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill will reduce revenue to the General Fund and the Medicaid Benefits Trust Fund by an unknown and likely minimal amount over the fiscal year (FY) 2012-13 through FY 2015-16 period. The bill will affect only the taxes levied on cigars sold at a wholesale price of more than $1.56. Nationally, somewhere between 97% and 99% of cigars have a manufacturer's price of less than $0.76, roughly half of the level necessary to be affected by the bill. Revenue from the tax on other tobacco products, which includes taxes on cigars, is forecast to total $65.0 million in FY 2012-13; the majority of this revenue is generated by sales of chewing tobacco and "little cigars". Assuming 5% of the revenue is from cigars affected by the bill, and those cigars have an average wholesale price of $4 per cigar, the bill will reduce State revenue by approximately $2.0 million per year; of this amount, approximately $0.5 million will reduce General Fund revenue. Because the bill did not change the tax rate until November 1, 2012, the reduction in FY 2012-13 revenue will be less, perhaps by $150,000 using the preceding assumptions, than in the other fiscal years affected by the bill.

Fiscal Analyst: David Zin

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