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BILL ANALYSIS

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Senate Bill 1004 (as introduced 3-6-12)
Sponsor: Senator Arlan Meekhof
Committee: Finance

Date Completed: 3-14-12

CONTENT

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

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

Currently, the tax on cigars, noncigarette smoking tobacco, and smokeless tobacco is 32% of the wholesale price. The bill states that, beginning October 1, 2011, the amount of tax levied on cigars under this provision could 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.

The bill would require a retailer that was licensed as an unclassified acquirer, retail importer of tobacco products other than cigarettes, to post a sign that informed purchasers of cigars through catalog sales or internet sales of their responsibility to pay all applicable unpaid State taxes on those cigars. The sign would have to be visible to the public inside the retail establishment.

MCL 205.427 & 205.431 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce revenue to the General Fund and the Medicaid Benefits Trust Fund by an unknown and likely minimal amount. The bill would 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 $62.0 million in FY 2011-12; 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 would reduce State revenue by approximately $1.9 million, of which approximately $0.5 million would reduce General Fund revenue.

Fiscal Analyst: David Zin

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