Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 476 (as reported without amendment)
Sponsor: Senator Wayne Schmidt
Committee: Commerce

CONTENT

The bill would amend the Tobacco Products Tax Act to eliminate an October 1, 2016, sunset date on a provision limiting the maximum tax on a cigar to $0.50. Currently, the Act levies a 32.0% tax on the wholesale price of cigars, noncigarette smoking tobacco, and smokeless tobacco. However, until October 1, 2016, the amount of tax levied on cigars may not exceed $0.50 per individual cigar. The bill would eliminate that sunset date.

The Act 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 or internet sales of their responsibility to pay all unpaid State taxes on those cigars. Under the bill, instead, retailers *not* licensed in this manner would have to post such a sign.

MCL 205.427 & 205.431 Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce State revenue by approximately $2.5 million annually. Under current law, the tobacco products tax on a cigar is 32% of the wholesale price, with a cap of not more than 50 cents per cigar in effect through October 31, 2016; thus, the tax on a cigar with a wholesale price of more than $1.5625 (sometimes referred to as a "premium cigar") is limited to 50 cents. The elimination of the sunset would maintain the cap on the tax at 50 cents per cigar. State revenue would be reduced for cigars sold at a wholesale price above $1.5625. The amount of the reduction would depend on the volume and wholesale price of premium cigars sold beginning November 1, 2016. Assuming an average price on premium cigars subject to the cap of $4 and premium cigar sales at levels similar to sales in the last two years, the estimated State revenue loss due to the bill would be approximately $2.3 million in FY 2016-17 and $2.5 million annually for subsequent years. The revenue from the taxation of tobacco products other than cigarettes (which includes taxation of cigars, noncigarette smoking tobacco, and smokeless tobacco) is distributed 25% to the General Fund and 75% to the Medicaid Benefits Trust Fund. The bill is estimated to reduce General Fund revenue by approximately $625,000 annually and the Medicaid Benefits Trust Fund by approximately $1,875,000 annually. The consensus revenue estimate for revenue from taxation on tobacco products (excluding cigarettes) is $85.9 million in FY 2015-16.

Date Completed: 12-7-15 Fiscal Analyst: Elizabeth Pratt