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BILL



ANALYSIS

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Senate Bill 476 (as introduced 9-10-15)
Sponsor: Senator Wayne Schmidt
Committee: Commerce

Date Completed: 10-28-15

CONTENT

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

- **Eliminate an October 1, 2016, sunset date on a provision limiting the maximum tax on a cigar to \$0.50.**
- **Require a retailer not licensed as an unclassified acquirer, retail importer of certain tobacco products, to post a sign relating to the payment of State taxes on cigars.**

The Act levies a tax on the sale of tobacco products sold in this State. For cigars, noncigarette smoking tobacco, and smokeless tobacco, the tax is 32.0% of the wholesale price. However, until October 1, 2016, the amount of tax levied on cigars may not exceed \$0.50 per individual cigar. The bill would eliminate the October 1, 2016, 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 visible to the public 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.

(The Act defines "unclassified acquirer" as a person, except a transportation company or a purchaser at retail from a retailer licensed under the General Sales Tax Act, who imports or acquires a tobacco product from a source other than a wholesaler or secondary wholesaler licensed under the Act for use, sale, or distribution.)

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 is 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.

Fiscal Analyst: Elizabeth Pratt

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