

Legislative Analysis



LIMIT ON CIGAR TAX

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<http://www.house.mi.gov/hfa>

Senate Bill 304 as enrolled

Sponsor: Sen. Joe Hune

House Committee: Tax Policy

Senate Committee: Finance

Complete to 2-1-19

Analysis available at

<http://www.legislature.mi.gov>

(Vetoed by the Governor 12-28-18)

SUMMARY:

Senate Bill 304 would amend the Tobacco Products Tax Act to permanently cap the tax collected on cigars at a maximum of \$0.50 per cigar.

Under current law, other tobacco products (essentially, any tobacco product that is not a cigarette) are taxed at a rate of 32% of the wholesale price. However, Public Act 325 of 2012 capped the tax on any cigar with a wholesale price greater than \$1.56 at \$0.50 through October 31, 2016, at which point the cap would sunset and all cigars would be taxed at 32% of the wholesale price with no upper limit. Public Act 86 of 2016 extended the sunset through October 31, 2021.

Senate Bill 304 would permanently remove the sunset and cap the tax on cigars at \$0.50 per cigar.

MCL 205.427

FISCAL IMPACT:

As written, the bill would have no immediate impact on tobacco tax revenue. However, beginning in FY 2021-22, tobacco tax revenue would decline by about \$3.0 million per year relative to current law.

Revenue from the 32% wholesale tax on other tobacco products is distributed such that 25% accrues to the General Fund, while the remainder is earmarked to the Medicaid Trust Fund.

Vetoed 12-28-18:

In his veto message, Governor Snyder noted that Public Act 86 of 2016 had extended the sunset to October 31, 2021, adding "I believe it is appropriate to maintain the current expectation for expiration of the cap in 2021 and return the tax to 32% of the wholesale price."

Fiscal Analyst: Jim Stansell

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