



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 304 (Substitute S-1 as reported)
Sponsor: Senator Joe Hune
Committee: Finance

CONTENT

The bill would amend the Tobacco Products Tax Act to eliminate an October 31, 2021, sunset date on a provision limiting the maximum tax on a cigar to \$0.50.

The Act levies a tax on the sale of tobacco products sold in Michigan. For cigars, noncigarette smoking tobacco, and smokeless tobacco, the tax is 32.0% of the wholesale price. However, beginning November 1, 2012, and through October 31, 2021, the amount of tax levied on cigars may not exceed \$0.50 per individual cigar. The bill would eliminate the October 31, 2021, sunset date.

MCL 205.427

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would reduce State revenue by approximately \$2.6 million annually, beginning in fiscal year (FY) 2021-22. 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, 2021; 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. Eliminating the sunset would make the cap on the tax at 50 cents per cigar permanent and 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 each year.

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 \$2.6 million per year. 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. Under this estimate, the bill would reduce General Fund revenue by approximately \$650,000 annually and Medicaid Benefits Trust Fund revenue by approximately \$1,950,000 annually. The consensus revenue estimate for revenue from taxation on tobacco products (excluding cigarettes) is \$84.5 million in FY 2019-20.

Date Completed: 12-5-18

Fiscal Analyst: David Zin