Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4485 (as reported without amendment)
Sponsor: Representative Matt Hall
House Committee: Tax Policy
Senate 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: Christian Schmidt

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, 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. 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, 2021.

In 2020, approximately 4.9 million cigars that were subject to the tax were sold at wholesale for approximately $21.0 million, representing an average wholesale price of approximately $4.3288 per cigar. Based on this data, the estimated State revenue forgone under the cap was approximately $4.3 million in fiscal year (FY) 2019-20. However, assuming some consumer response to the change in price that would occur if the tax on cigars increased absent the bill, the actual revenue loss to the State would be less than $4.3 million. Based on sales before the cap, the actual revenue increase if the cap were to sunset (or equivalently, the revenue foregone as a result of the bill) would probably be closer to $3.0 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. It is estimated that the bill would reduce General Fund revenue by approximately $750,000 annually and the Medicaid Benefits Trust Fund by approximately $2.3 million annually. The consensus revenue estimate for revenue from taxation on tobacco products (excluding cigarettes) is $100.0 million in FY 2021-22.

Date Completed: 6-7-21 Fiscal Analyst: David Zin