

Handout

THE TAX BURDEN
ON TOBACCO

Historical Compilation
1999

by Orzechowski and Walker

Table 7
State Cigarette Tax Rates
 (During fiscal years ending June 30)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999**	
AL	12¢	16¢*	16¢	16¢	16¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢	16.5¢
AK	8	8	8	8	8	8	16*	16	16	16	29	29	29	29	29	29	29	29	29	100
AZ	13	13	13	13	13	15	15	15	15	15	15	18*	18	18	18	58*	58	58	58	58
AR	17.75	17.75	17.75	21*	21	21	21	21	21	21	21	21	22	34.5*	31.5	31.5	31.5	31.5	31.5	31.5
CA	10	10	10	10	10	10	10	10	10	35	35	35	35	35	37*	37	37	37	37	87
CO	10	10	10	10	15*	15	15*	20	20	20	20	20	20	20	20	20	20	20	20	20
CT	21	21	21	21	26*	26	26	26	26	40	40	40	45*	45	47	50	50	50	50	50
DE	14	14	14	14	14	14	14	14	14	14	14	24*	24	24	24	24	24	24	24	24
DC	13	13	13	13	13	13	13	17*	17	17	17	17	50*	50*	65	65	65	65	65	65
FL	21	21	21	21	21	21	21*	24	24	24	24	33.9	33.9	33.9	33.9	33.9	33.9	33.9	33.9	33.9
GA	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
HI	14†	15†	17†	21†	23†	24†	28†	30*	33	33	38	43	48	52	60	60	60	60	60	100
ID	9.1	9.1	9.1	9.1	9.1	9.1	9.1	18*	18	18	18	18	18	18	18	28	28	28	28	28
IL	12	12	12	12	12	12	12	20*	20	20	20	30	30	30	44*	44	44	44	44	58
IN	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
IA	13	13	18	18	18	18	26*	26	34	31	31	36*	36	36	36	36	36	36	36	36
KS	11	11	11	11	16	16	24*	24	24	24	24	24	24	24	24	24	24	24	24	24
KY	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
LA	11	11	11	11	11	16	16	16	16	16	16	20*	20	20	20	20	20	20	20	20
ME	16	16	16	16	20*	20	28*	28	28	28	31	33*	37	37	37	37	37	37	37	74
MD	10	13	13	13	13	13	13	13	13	13	13	16*	36*	36	36	36	36	36	36	36
MA	21	21	21	21	26*	26	26	26	26	26	26	26	26	51*	51	51	51	51	51	76
MI	11	11	21*	21	21	21	21	21	25	25	25	25	25	25	75*	75	75	75	75	75
MN	18	18	18	18	18	18	23	38*	38	38	38	43	43	48	48	48	48	48	48	48
MS	11	11	11	11	11	18*	18	18	18	18	18	18	18	18	18	18	18	18	18	18
MO	9	9	9	13*	13	13	13	13	13	13	13	13	13	13	17*	17	17	17	17	17
MT	12	12	12	12	16	16	16	16	16	16	18	18	18	19.26*	18*	18	18	18	18	18
NE	13	13	18*	18	18	18	23*	23	27	27	27	27	27	27	34	34	34	34	34	34
NV	10	10	10	10	15	15	15	15	20	20	35	35	35	35	35	35	35	35	35	35
NH	12	12	12	12	17*	17	17	17	17	17	21	25	25	25	25	25	25	25	25	25
NJ	19	19	24*	24	25	25	25	25	27	27	27	40	40	40	40	40	40	40	40	80
NM	12	12	12	12	12	12	12*	15	15	15	15	15	15	15	21	21	21	21	21	21
NY	15	15	15	21*	21	21	21	21	21	33	39	39	39	39	56*	56	56	56	56	56
NC	2	2	2	2	2	2	2	2	2	2	2	2	5*	5	5	5	5	5	5	5
ND	12	12	12	18*	18	18	18	18	18	27	30*	30	29	29	44	44	44	44	44	44
OH	15	15	14*	14	14	14	14	14	18	18	18	18	18	24*	24	24	24	24	24	24
OK	18	18	18	18	18	18	18	23*	23	23	23	23	23	23	23	23	23	23	23	23
OR	9	9	19*	19	19	19	27*	27	27	27	28	28	28	28	38	38	38	38	38	68*
PA	18	18	18	18	18	18	18	18	18	18	18	18	31*	31*	31	31	31	31	31	31
RI	18	18	23	23	23	23	23.4*	25	25	27	37	37	37	37	56	56	61	71	71	71
SC	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
SD	14	14	15	15	15	15	23	23	23	23	23	23	23	23	23	23	33	33	33	33
TN	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
TX	18.5	18.5	18.5	18.5	18.5	19.5	20.5*	20.5	26	26	26	41	41	41	41	41	41	41	41	41
UT	10	10	10	12*	12	12	12	23*	23	23	23	23	26.5	26.5	26.5	26.5	26.5	26.5	26.5	51.5
VT	12	12	12	12	17*	17	17	17	17	17	17	17	19*	20	20	20	44	44	44	44
VA	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
WA	16	16	20.8*	23*	23	23	31*	31	31	34	34	34	34	56.5	56.5	81.5	82.5	82.5	82.5	82.5
WV	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
WI	16	16	25*	25	25	25	25	25	30	30	30	30	38*	38	38	38	44	44	44	59
WY	8	8	8	8	8	8	8	8	8	8	12	12	12	12	12	12	12	12	12	12

* Indicates that the rate change shown became effective after the beginning of the fiscal year.
 ** For rates as of January 1, 2000 see Table 6.
 † Hawaii tax was 40% of wholesale price until July 1, 1993. New Hampshire tax was 42% of retail price until July 1, 1975.

1999 MINN RANKED 19th HIGHEST
 1994 MINN RANKED 5th HIGHEST → First year at 48¢/pack
 1992 MINN RANKED TIED FOR 1st → First year at 43¢/pack
 1988 MINN RANKED 1st → First year at 38¢/pack
 1980 MN RANKED TIED FOR 6th

State Cigarette Tax Rates

State	1/1/2005	
	Cents/ pack	Rank
Rhode Island	246	1
New Jersey	240	2
Michigan	200	3
Montana	170	4
Alaska	160	5
Connecticut	151	6
Massachusetts	151	7
New York	150	8
Washington	142.5	9
Hawaii	140	10
Pennsylvania	135	11
Vermont	119	12
Arizona	118	13
Oregon	118	14
Oklahoma	103	15
DC	100	16
Maine	100	17
Maryland	100	18
Illinois	98	19
New Mexico	91	20
California	87	21
Colorado	84	22
Nevada	80	23
Kansas	79	24
Wisconsin	77	25
Utah	69.5	26
Nebraska	64	27
Wyoming	60	28
Arkansas	59	29
Idaho	57	30
Indiana	55.5	31
Delaware	55	32
Ohio	55	33
West Virginia	55	34
South Dakota	53	35
New Hampshire	52	36
Minnesota	48	37
North Dakota	44	38
Alabama	42.5	39
Texas	41	40
Georgia	37	41
Iowa	36	42
Louisiana	36	43
Florida	33.9	44
Tennessee	20	45
Virginia	20	46
Mississippi	18	47
Missouri	17	48
South Carolina	7	49
North Carolina	5	50
Kentucky	3	51

To 202.5 (7/1/05)

To 30 (7/1/05)

To 30 (6/1/05)

Note: Kentucky has increased its tax to 30 cents per pack, effective 6/1/05.
 Virginia's tax will rise to 30 cents effective 7/1/05.
 Washington's tax will rise to 202.5 cents effective 7/1/05.
 Several other states may still enact increases this session.

State Cigarette Tax Rates

Alphabetical Listing

(50 states and DC)

State	1/1/2001		1/1/2002		1/1/2003		1/1/2004		1/1/2005	
	Cents/pack	Rank								
Alabama	16.5	43	16.5	43	16.5	45	16.5	47	42.5	39
Alaska	100	2	100	3	100	11	100	12	160	5
Arizona	58	15	58	15	118	9	118	10	118	13
Arkansas	30	29	34	26	34	32	59	27	59	29
California	87	4	87	7	87	18	87	19	87	21
Colorado	20	38	20	38	20	39	20	43	84	22
Connecticut	50	19	50	19	111	10	151	3	151	6
DC	65	13	65	14	100	11	100	12	100	16
Delaware	24	32	24	32	24	36	55	30	55	32
Florida	33.9	27	33.9	28	33.9	33	33.9	41	33.9	44
Georgia	12	46	12	46	12	46	37	38	37	41
Hawaii	100	2	100	3	120	8	130	7	140	10
Idaho	28	31	28	31	28	35	57	28	57	30
Illinois	58	15	58	15	98	16	98	17	98	19
Indiana	15.5	44	15.5	44	55.5	23	55.5	29	55.5	31
Iowa	36	24	36	24	36	29	36	39	36	42
Kansas	24	32	24	32	79	19	79	21	79	24
Kentucky	3	50	3	50	3	50	3	50	3	51
Louisiana	24	32	24	32	36	29	36	39	36	43
Maine	74	9	100	3	100	11	100	12	100	17
Maryland	66	12	66	13	100	11	100	12	100	18
Massachusetts	76	7	76	10	151	1	151	3	151	7
Michigan	75	8	75	11	125	7	125	8	200	3
Minnesota	48	20	48	20	48	26	48	35	48	37
Mississippi	18	39	18	39	18	41	18	45	18	47
Missouri	17	41	17	41	17	43	17	46	17	48
Montana	18	39	18	39	18	41	70	23	170	4
Nebraska	34	26	34	26	64	22	64	25	64	27
Nevada	35	25	35	25	35	31	80	20	80	23
New Hampshire	52	17	52	17	52	25	52	34	52	36
New Jersey	80	6	80	8	150	2	205	1	240	2
New Mexico	21	37	21	37	21	38	91	18	91	20
New York	111	1	111	2	150	2	150	5	150	8
North Carolina	5	49	5	49	5	49	5	49	5	50
North Dakota	44	21	44	21	44	27	44	36	44	38
Ohio	24	32	24	32	55	24	55	30	55	33
Oklahoma	23	36	23	36	23	37	23	42	103	15
Oregon	68	11	68	12	128	6	118	10	118	14
Pennsylvania	31	30	31	30	100	11	100	12	135	11
Rhode Island	71	10	100	3	132	5	171	2	246	1
South Carolina	7	48	7	48	7	48	7	48	7	49
South Dakota	33	28	33	29	33	34	53	33	53	35
Tennessee	13	45	13	45	20	39	20	43	20	45
Texas	41	23	41	23	41	28	41	37	41	40
Utah	51.5	18	51.5	18	69.5	21	69.5	24	69.5	26
Vermont	44	21	44	21	93	17	119	9	119	12
Virginia	2.5	51	2.5	51	2.5	51	2.5	51	20	46
Washington	82.5	5	142.5	1	142.5	4	142.5	6	142.5	9
West Virginia	17	41	17	41	17	43	55	30	55	34
Wisconsin	59	14	77	9	77	20	77	22	77	25
Wyoming	12	46	12	46	12	46	60	26	60	28
Median	34.0		34.0		48.0		60.0		69.5	
Mean* (unweighted)	41.9		44.6		62.0		72.7		84.0	
(pop weights)	49.2		51.1		70.7		75.5		84.2	
# changes in year			5		21		16		11	
Ave change in year			27.4		42.2		33.9		52.5	

*Includes DC.

Sources include: Federation of Tax Administrators; NCSL end-of-session summary; and State Tax Notes.

Does not include city or county taxes.

Effective after 1/1/01 and by 1/1/02	Effective after 1/1/02 and by 1/1/03	Effective after 1/1/03 and by 1/1/04	Effective after 1/1/04 and by 1/1/05
5 states with an increase averaging 27.4 cents/pack.	20 states + DC with an increase averaging 42.2 cents/pack.	15 states with an increase* averaging 36.9 cents/pack	11 states with an increase averaging 52.5 cents/pack
Total states with no increase since 1/1/01: 12			

*Also one with decrease of 10 cents per pack.

Number change since 1/1/01
Ave change since 1/1/01

5	24	34	39
27.4	42.7	46.1	55.0

Fiscal Analysis Department
Minnesota House of Representatives



To: Rep. Ann Lenczewski
From: Paul Wilson
Date: June 7, 2005
Re: Growth rates for cigarette tax revenue compared to other taxes

The attached figure shows average annual revenue growth for selected Minnesota taxes over the 20-year period from FY 1989 to FY 2009 (under the current economic forecast). Growth rates have been adjusted for changes in tax rates for the cigarette tax, lawful gambling taxes, corporate tax, and sales tax. Gambling tax growth rates are shown over a shortened period (1991-2009) because of structural changes to those taxes after 1989, and income tax revenue growth is shown only for FY 2005 to FY 2009, based on current law rates.¹

The cigarette tax is the only state tax whose revenue – after adjusting for changes in tax rates – will have decreased between 1989 and 2009. The number of packs subject to tax will have fallen by an average of 1.4 percent per year, for a total decline of 25 percent over that 20 year period.

Several other tax bases have also risen very slowly, though, failing to grow as fast as inflation (which will average 2.6 percent per year over this period). Gambling taxes, alcohol excise taxes, motor fuels taxes and the corporate franchise tax will each have grown more slowly than inflation (after adjusting for increased tax rates).

Keeping up with both inflation and population growth would require revenue to grow by even more, at 3.7 percent per year. Both the general sales tax and the individual income tax grow faster than this. However, the sales tax fails to grow as fast as total personal income (which averages 5.1 percent per year over this period). Sales tax revenue tends to grow only about 0.9 times as fast as personal income, as more and more consumer spending shifts to untaxed services and as more and more purchases are made over the internet (many of which escape the tax).

In contrast, income tax revenue tends to grow significantly faster than personal income – about 1.3 times as fast on average, if tax rates remain unchanged and assuming there is no major change in capital gains income.

¹ Historical data are taken from Department of Revenue, Chartbook of Minnesota Tax Collections (1988 with 1989 & 1990 updates) and Minnesota Tax Handbook, as well as from Economic Resources Group, Economic Report to the Governor (2002). Economic data is taken from the February 2005 Global Insight economic forecast (including their historical data).

To keep up with inflation and population growth (at 3.7 percent per year), total revenue would need to have more than doubled between 1989 and 2009. *The shortfall compared to the doubled revenue at the end of 20 years would be:*

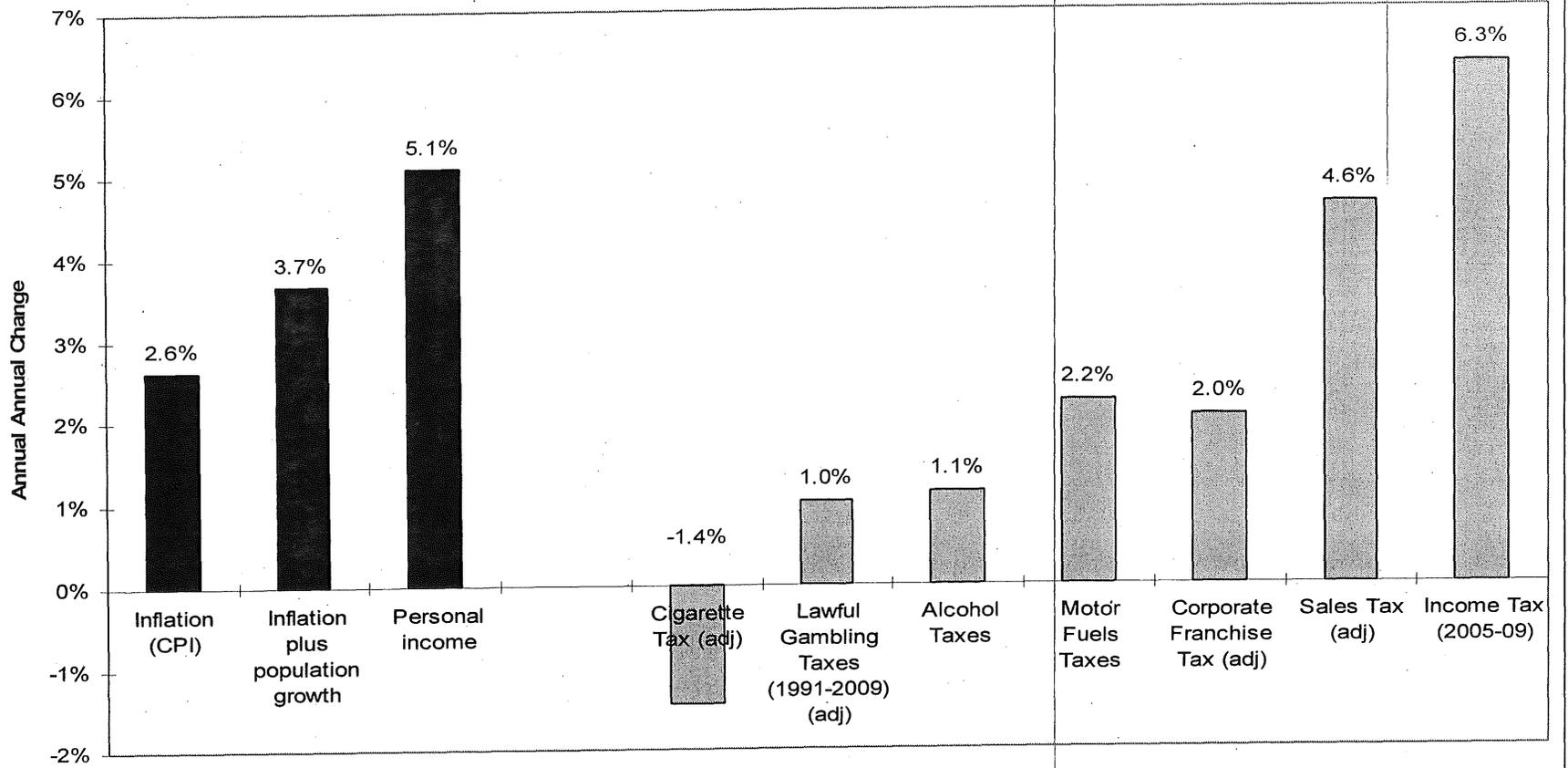
Cigarette tax :	63% shortfall
Gambling taxes:	49% shortfall
Alcohol taxes:	39% shortfall
Motor fuel taxes:	25% shortfall
Corporate tax:	27% shortfall

The moral:

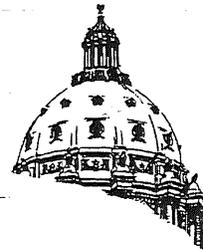
- The cigarette tax is but one of many taxes that fail to keep up with inflation and population growth.
- It is not necessary for each individual tax to grow as fast as personal income (or even to keep up with inflation). The goal of “revenue adequacy”² does require that the overall mix of taxes grows with the economy.
- In general, excise taxes (levied per unit rather than as a percent of price) can keep up with inflation and population growth only by increasing the tax rate on a regular basis. A rate increase of about 75 cents per pack by FY 2009 would be enough for cigarette tax revenue to have kept up with inflation and population growth since 1989.

² One of the goals listed in Minnesota Department of Revenue, *Model Revenue System for Minnesota* (1992).

Average Change in Tax Revenue
 (adjusted for changes in tax rates)
 Compared to Inflation, Population Growth, and Income Growth
 1989-2009



Fiscal Analysis Department
Minnesota House of Representatives



To: Rep. Ann Lenczewski
From: Paul Wilson
Date: June 7, 2005
Re: Regressivity of the cigarette excise tax

The cigarette tax is by far the most regressive tax Minnesota collects. The Suits index of -0.52 is much lower than the other regressive taxes (gambling at -0.35, MnCare taxes at -0.27, motor fuels taxes at -0.24, alcohol taxes at -0.17, and general sales tax at -0.14).¹ The attached one-pager from the Department of Revenue summarizes the distributional impact of the current cigarette and tobacco excise taxes.

The acceptability of such a regressive tax can be argued on at least two public policy grounds:

- Externalities – the tax forces the smoker to compensate for costs the smoker imposes on others, including direct health externalities (second hand smoke) as well as higher health costs paid either by the government or by nonsmokers in higher health insurance costs. In the absence of a tax equal to such externalities, smoking behavior is being subsidized by others.
- Keeping smokers from self-destructive behavior – Here the emphasis is on damages *to the smoker* rather than the costs the smoker may impose on others. Reducing smoking is in the interest of potential smokers, not just in the interest of others in society. Nicotine is addictive, most smokers begin when young, and there is evidence that young people underestimate their chances of succumbing to the addiction. Public health advocates are concerned about reducing smoking-related illnesses, not just about making smokers pay the full costs.
- Use of funds – If revenue from a regressive tax is used to finance (say) health care for low income families, the net impact of tax-funded expenditures may be progressive. For example, the MnCare taxes are regressive, but the expenditures are so progressive that the combination is on net progressive. Another example would be social security, where a regressive tax finances progressive benefits with the net impact being progressive. This argument only works, of course, if the progressive expenditures would not occur “but for” the revenue from the cigarette tax.

Certainly it is the overall incidence of the total tax system that matters here, not the incidence of one particular tax. A relatively small (revenue neutral) change in the income tax rate structure could easily offset the added regressivity introduced by a higher cigarette tax, if maintaining the existing degree of regressivity were desired.

¹ Rental property taxes – before PTR – are also regressive (Suits of -0.37), but the regressivity is much lower than the sales tax once the rental PTR is taken into account. Farm property taxes (other than residence) are also very regressive (Suits of -0.31), according to the Department of Revenue. Seasonal recreational property taxes are also regressive (Suits of -0.18), though the Department’s data for this sector is quite weak.

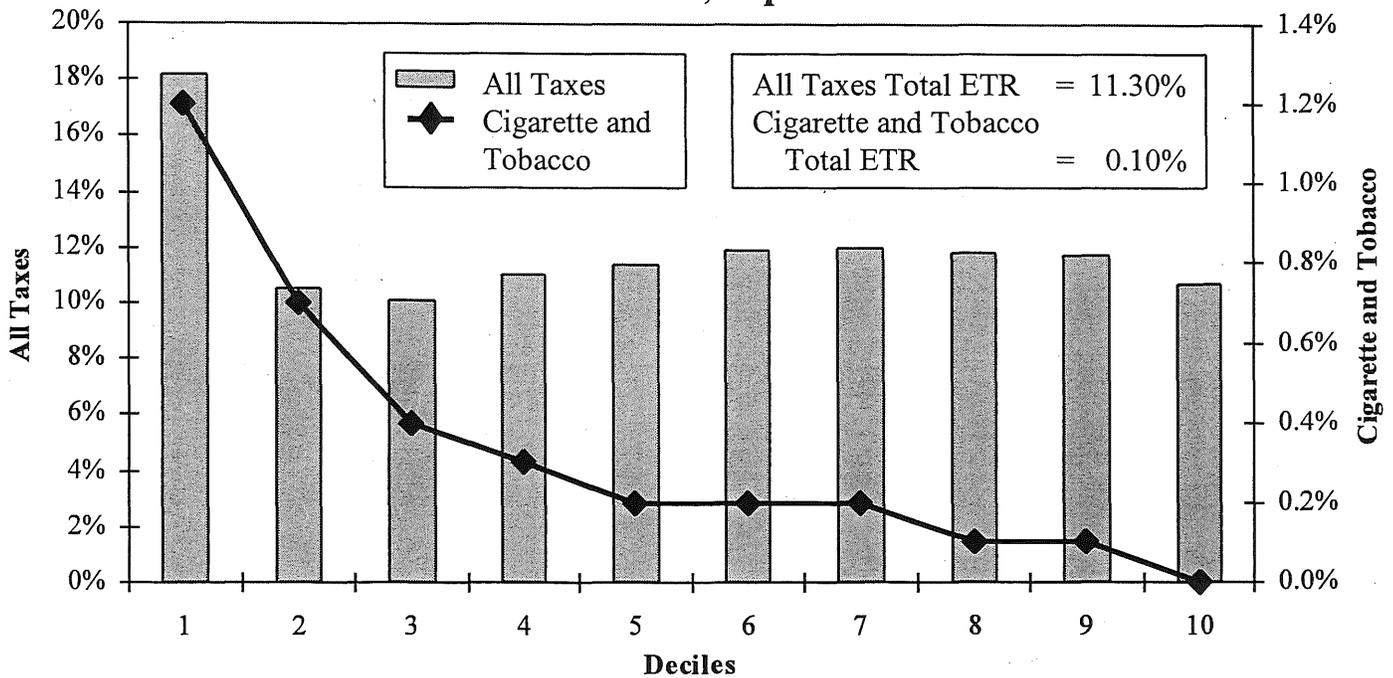
2002 Incidence Estimate for Cigarette and Tobacco Excise Taxes*

Tax Collection Amounts 2002
(Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$178	\$0	\$0	\$178	\$173	\$5

**Shifting allocations: Direct = 0%, Consumers = 100%, Labor = 0%, Capital = 0%

Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Cigarette and Tobacco	1.2%	0.7%	0.4%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	-0.52

*Composed of the cigarette tax (\$161M) and the tobacco products tax (\$17M).

**Cigarette Health Impact Fee
Draft Proposal as of June 6, 2005**

	<u>FY 2006*</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
			(000's)	
75¢ Cigarette Fee	\$189,705	\$203,856	\$200,760	\$197,565
Floor Stocks Fee	<u>\$20,250</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Health Impact Fund Total	\$209,955	\$203,856	\$200,760	\$197,565
Cigarette Excise Tax	(\$20,044)	(\$20,917)	(\$20,028)	(\$19,235)
Sales Tax on Cigarettes	<u>\$4,786</u>	<u>\$5,190</u>	<u>\$5,153</u>	<u>\$5,106</u>
General Fund Net Impact	(\$15,258)	(\$15,727)	(\$14,875)	(\$14,129)
Academic Health Center Fund	\$74	\$183	\$276	\$350
Medical Education and Research Account				
Special Revenue Fund	<u>(\$30)</u>	<u>\$8</u>	<u>\$45</u>	<u>\$74</u>
Total – All Funds	\$194,741	\$188,320	\$186,206	\$183,860

* 11 months of collections

This analysis is based on draft language available on June 6, 2005. The proposal is to impose a cigarette fee of 75¢ per pack that would be deposited in the Health Impact Fund. The proposal would impose a floor stocks fee (i.e. a fee on current inventories) of 75¢ per pack on cigarettes that would be deposited in the Health Impact Fund.

The proposal is to have the existing cigarette tax rate of 48¢ per pack of 20 remain the same. The amount due to the Academic Health Center Fund would be raised from 6.5¢ per pack to 7.6¢ per pack and for the Medical Education and Research Account from 2.5¢ to 2.9¢. The remainder of the 48¢ tax would go to the general fund.

The proposal would be effective July 1, 2005.

- February 2005 forecast amounts are used.
- For fiscal year 2006, sales of 321,387,500 packs of cigarettes are estimated. For the \$0.75 per pack excise fee increase, an elasticity factor of -0.550 is applied and reduces the number of packs sold by 45,453,375 to 275,934,125.
- A weighted average price per pack of \$3.15 is estimated for fiscal year 2006.
- It is assumed that the increase in refunds will be minimal.
- Fiscal year 2006 is adjusted for 11 months of collections.
- The floor stocks fee is based on 27 million packs.
- The estimates do not include interactions with other proposals, such as moving the sales tax to the wholesale level.

Minnesota Department of Revenue
Tax Research Division
June 7, 2005

UNIVERSITY OF MINNESOTA

Twin Cities Campus

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Office of the Senior Vice President
for Health Sciences*

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Fax: 612-626-2111*

*Offices located at:
410 ChRC
426 Church Street S.E.
Minneapolis, MN 55455-0374*

May 17, 2005

Senator Larry Pogemiller
State Capitol Room 235
St. Paul, Minnesota 55155

Dear Senator Pogemiller:

The University of Minnesota's Academic Health Center relies on revenue from its dedicated portion of the state's cigarette tax – currently 6.5¢. That critical revenue helps cover the cost of our health professional education and research programs. Previously, the state had used revenue from the tobacco settlement endowments to support these programs. The endowments, established in 2000, were set up to provide \$25 million annually to the Academic Health Center.

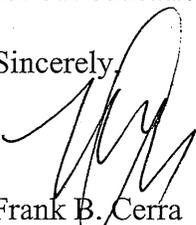
When the tobacco endowments were liquidated to balance the state budget two years ago, the state opted to turn to the cigarette tax, in lieu of general fund monies, to help cover the costs of these essential programs. The legislature, at the time, thought that cigarette sales and funding for the AHC would actually increase. Instead, cigarette sales have decreased, and so has funding for AHC programs, falling in the most recent Department of Revenue estimates to \$20.9 million for next fiscal year.

With the proposal to significantly increase the cigarette tax, cigarette sales are expected to fall further. We want to be clear that we support the reduction in smoking as a good thing – for individuals, their families, and the state. It has the unintended, and unfortunate, byproduct, however, of seriously reducing funding for medical research at the University and for educating the state's next generation of health professionals.

Maintaining the AHC's needed revenue with a cigarette tax increase of \$1 per pack requires that 9.5¢ of the tax be dedicated to the University's Academic Health Center. That's based on Department of Revenue projections that such an increase would reduce sales by another 18 percent. At 9.5 ¢ per pack, the AHC would receive \$25 million annually as originally intended by the state.

We urge you, as you consider raising the state's cigarette tax, to keep the University of Minnesota's Academic Health Center whole and provide \$25 million in critical funding for our education and research programs.

Sincerely,



Frank B. Cerra
Senior Vice President for Health Sciences



STATE OF MINNESOTA
COUNCIL ON BLACK MINNESOTANS

Wright Building • Suite 426

2233 University Avenue • St. Paul, MN 55114 • (651) 642-0811 • 643-3580 FAX

The Honorable Matt Entenza
267 SOB, 100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55115

June 14, 2005

Dear Representative Entenza:

It has recently come to the attention of the Council on Black Minnesotans that hesitation has been expressed for complete support for a cigarette tax increase or "fee" because of concerns with the fairness of the tax on low-income populations and people of color in Minnesota. The Council would like to express its full support for any cigarette tax increase on behalf of low-income African American smokers in Minnesota.

Since African American low-income smokers are more likely to *quit* smoking if prices of cigarettes are increased, they are more likely to *benefit* from a tax. Cigarette tax increases help our communities quit smoking, keep our kids from starting to smoke, reduce health care costs associated with smoking, and bring in revenue that prevents funding cuts from state programs that benefit all of us.

The Tobacco Industry has waged war on the health of African Americans in this county and in Minnesota since slavery began. Cheap cigarettes do not benefit anyone besides the tobacco industry, least of all Black Minnesotans.

African American adults have the second-highest rate of smoking (26.7%) of any ethnic group in the US.¹ Each year, approximate 45,000 African Americans die nationwide from preventable, smoking - related diseases.² Smoking is responsible for 87% of lung cancers. African American men are at least 50% more likely to develop lung cancer than white men.³

Contrary to some beliefs that a cigarette tax is an unfair burden on African Americans, most African Americans favor raising taxes on cigarettes regardless of the impact on low-income smokers, according to the results of a 2003 national survey of African Americans' opinions on tobacco taxes published in the *American Journal of Public Health*.

A cigarette tax increase or "fee" is solid economic, social justice, and most importantly, public health policy. Regardless of political motivations, we must keep in mind that increasing the cigarette tax helps smokers quit, keeps kids from ever starting to smoke, and most importantly, saves lives.

Sincerely,

A handwritten signature in black ink that reads "Lester R. Collins, Sr." with a stylized flourish at the end.

Lester Collins, Sr.
Executive Director

¹ Campaign for Tobacco-Free Kids. "Tobacco Use and African Americans", 1999.

² Centers for Disease Control and Prevention, Office on Smoking and Health, Unpublished data, 1995.

³ US Department of Health and Human Services. Tobacco Use Among US Racial/Ethnic Minority Groups-- African Americans, American Indians and Alaska Natives, Asian Americans and Pacific Islanders, and Hispanics : A Report of the Surgeon General. Atlanta, Georgia: US Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office of Smoking and Health, 1998.

6/9/2005

Cigarette Tax Increase -- **Gross Numbers --No Deductions for AHC/MERC Carveouts, Refunds, Sales Taxes**

Based in FY 06 Estimates

Per Pack	Annual--Full Year	Biennial--Full Year	11/12 Biennial	11/12 Biennial AHC at .065	11/12 Biennial MERC @ .025	Sales Tax Refunds
0.40	\$111,944,607	\$223,889,214	\$205,231,780	\$13,340,065.67	\$5,130,794.49	
0.50	\$135,002,169	\$270,004,338	\$247,503,977	\$16,087,758.47	\$6,187,599.41	
0.55	\$146,929,432	\$293,858,864	\$269,370,625	\$17,509,090.65	\$6,734,265.63	
0.60	\$158,856,695	\$317,713,390	\$291,237,274	\$18,930,422.82	\$7,280,931.85	
0.70	\$181,662,585	\$363,325,170	\$333,048,073	\$21,648,124.71	\$8,326,201.81	
0.75	\$189,223,903	\$378,447,806	\$346,910,489	\$22,549,181.77	\$8,672,762.22	

Draft Language for Governor's Proposed Health Impact Fee:

New Section of Statute:

Section 1. Minnesota Statutes 2004, chapter 256 is amended by adding a section to read:

[256.9658] [Cigarette Health Impact Fee.]

Subdivision 1. [PURPOSE.] A cigarette health impact fee is imposed on and collected from cigarette distributors to recover for the state health costs related to or caused by smoking and to reduce smoking, particularly by youths.

Subd. 2. [DEFINITIONS.] The definitions under section 297F.01 apply to this section.

Subd. 3. [FEE IMPOSED.] (a) A fee is imposed upon the sale of cigarettes in this state, upon having cigarettes in possession in this state with intent to sell, upon any person engaged in business as a distributor, and upon the use or storage by consumers of cigarettes. The fee is imposed at the following rates:

(1) on cigarettes weighing not more than three pounds per thousand, 37.5 mills on each such cigarette; and

(2) on cigarettes weighing more than three pounds per thousand, 75 mills on each such cigarette.

Subd. 4. [PAYMENT.] A distributor must pay the fee at the same time and in the same manner as provided for payment of tax under chapter 297F.

Subd. 5. [FEE ON USE OF UNSTAMPED CIGARETTES.] Any person, other than a distributor, that purchases or possesses cigarettes that have not been stamped and on which the fee imposed under this section has not been paid is liable for the fee under this section on the possession or use of those cigarettes.

Subd. 6. [ADMINISTRATION.] The audit, assessment, interest, appeal, refund, penalty, enforcement, administrative, and collection provisions of chapters 270C and 297F apply to the fee imposed under this section.

Subd. 7. [CIGARETTE STAMP.] (a) The stamp referenced in section 297F.08 must be affixed to each package and will be considered prima facie evidence that the fee imposed by this section has been paid. (b) Notwithstanding any other provisions of this section, the fee due on the return is based upon actual stamps purchased during the reporting period.

Subd. 8. [LICENSE REVOCATION.] The commissioner of revenue may revoke or suspend the license of a distributor for failure to pay the fee or otherwise comply with the requirements under this section. The provisions and procedures under section 297F.04 apply to a suspension or revocation under this subdivision.

Subd. 9. [DEPOSIT OF REVENUES.] The commissioner of revenue shall deposit the revenues from the fee under this section in the health impact fund.
[EFFECTIVE DATE.] This section is effective July 1, 2005.

Sec. 2. Minnesota Statutes 2004, section 297F.10, subdivision 1, is amended to read:
Subdivision 1. **Tax and use tax on cigarettes.**

Revenue received from cigarette taxes, as well as related penalties, interest, license fees, and miscellaneous sources of revenue shall be deposited by the commissioner in the state treasury and credited as follows:

(1) the revenue produced by ~~3.25~~ 3.8 mills of the tax on cigarettes weighing not more than three pounds a thousand and ~~6.5~~ 7.6 mills of the tax on cigarettes weighing more than three pounds a thousand must be credited to the Academic Health Center special revenue fund hereby created and is annually appropriated to the Board of Regents at the University of Minnesota for Academic Health Center funding at the University of Minnesota; and

(2) the revenue produced by ~~1.25~~ 1.45 mills of the tax on cigarettes weighing not more than three pounds a thousand and ~~2.5~~ 2.9 mills of the tax on cigarettes weighing more than three pounds a thousand must be credited to the medical education and research costs account hereby created in the special revenue fund and is annually appropriated to the commissioner of health for distribution under section 62J.692, subdivision 4; and

(3) the balance of the revenues derived from taxes, penalties, and interest (under this chapter) and from license fees and miscellaneous sources of revenue shall be credited to the general fund.

[EFFECTIVE DATE.] This section is effective for revenue received on or after July 1, 2005.

Sec. 3. Minnesota Statutes 2004, section 297F.185, is amended to read:
297F.185 Revocation of sales and use tax permits.

(a) If a retailer purchases for resale from an unlicensed seller more than 20,000 cigarettes or \$500 or more worth of tobacco products, the commissioner may revoke the person's sales and use tax permit as provided in section 297A.86.

(b) The commissioner may revoke a retailer's sales or use tax permit as provided in section 297A.86 if the retailer, directly or indirectly, purchases for resale cigarettes without the proper stamp affixed.

[EFFECTIVE DATE.] This section is effective for violations occurring on or after July 1, 2005.

Sec. 4. Minnesota Statutes 2004, section 325D.32, subdivision 9, is amended to read:
Subd. 9. **[BASIC COST OF CIGARETTES.]** "Basic cost of cigarettes" means the gross invoice cost of cigarettes to the wholesaler or retailer plus the full face value of any

stamps which may be required by any cigarette tax or fee act of this state, unless included by the manufacturer in the list price.

EFFECTIVE DATE.] This section is effective July 1, 2005.

Sec. 5. [FLOOR STOCKS FEE.]

Subdivision 1. [CIGARETTES.] A floor stocks cigarette fee is imposed on every person engaged in the business in this state as a distributor, retailer, subjobber, vendor, manufacturer, or manufacturer's representative of cigarettes, on the stamped cigarettes and unaffixed stamps in the person's possession or under the person's control at 12:01 a.m. on July 1, 2005. The fee is imposed at the following rates:

(1) on cigarettes weighing not more than three pounds per thousand, 37.5 mills on each such cigarette; and

(2) on cigarettes weighing more than three pounds per thousand, 75 mills on each such cigarette.

Each distributor, on or before July 10, 2005, shall file a return with the commissioner or revenue, in the form the commissioner prescribes, showing the stamped cigarettes and unaffixed stamps on hand at 12:01 a.m. on July 1, 2005, and the amount of fee due on the cigarettes and unaffixed stamps. The fee imposed by this section is due and payable on or before August 7, 2005, and after that date bears interest at the rate of one percent a month. Each retailer, subjobber, vendor, manufacturer, or manufacturer's representative, on or before July 10, 2005, shall file a return with the commissioner of revenue, in the form the commissioner prescribes, showing the cigarettes on hand at 12:01 a.m. on July 1, 2005, and the amount of fee due on the cigarettes. The fee imposed by this section is due and payable on or before August 7, 2005, and after that date bears interest at the rate of one percent a month.

Subd. 2. [AUDIT AND ENFORCEMENT.] The fee imposed by this section is subject to the audit, assessment, interest, appeal, refund, penalty, enforcement, administrative, and collection provisions of chapters 270C and 297F. The commissioner of revenue may require a distributor to receive and maintain copies of floor stocks fee returns filed by all persons requesting a credit for returned cigarettes.

Subd. 3. [DEPOSIT OF PROCEEDS.] The commissioner of revenue shall deposit the revenues from the fee under this section in the health impact fund.

[EFFECTIVE DATE.] This section is effective July 1, 2005.

Sec. 6. Minnesota Statutes 2004, Chapter 16A is amended by adding a section to read:

[16A.725]. Health Impact Fund and Fund Reimbursements

Subd. 1. [Health Impact Fund.] There is created in the state treasury a health impact fund into which shall be deposited all revenue from the health impact fee under section 256.9658 and any floor stocks fee enacted into law.

Subd. 2. [Certified Tobacco Expenditures]. By April 30th each year, the commissioner of human services shall certify to the commissioner of finance the state share, by fund, of smoking attributable costs for the previous fiscal year in Minnesota health care programs, including medical assistance, general assistance medical care, and MinnesotaCare, or other applicable expenditures.

Subd. 3. [Fund Reimbursements].

- a) Each fiscal year, the commissioner of finance shall first transfer from the health impact fund to the general fund an amount sufficient to offset the general fund cost of the certified expenditures under subdivision 2 or the balance of the fund, whichever is less.
- b) b) If there are any funds remaining in the health impact fund after the transfer in subdivision 3a, the commissioner of finance shall transfer to the health care access fund the amount sufficient to offset the health care access fund cost of the certified expenditures in subdivision 2, or the balance of the fund, whichever is less.

[EFFECTIVE DATE.] This section is effective July 1, 2005.