

## Cigarette and Tobacco Excise Taxes and Fees

***Minnesota imposes several taxes and fees on cigarettes and tobacco products***

Minnesota imposes a series of taxes and fees on the sale or possession of cigarettes and tobacco products. The table lists the taxes and fees and their rates. The cigarette taxes and fees are all imposed on a “per unit” basis—i.e., on the number of cigarettes sold, not as a percentage of the sale price.

Because the taxes and fees are set on a per-unit basis, they do not increase as the prices of cigarettes increase. (The tax in lieu of the general sales tax on cigarettes is annually indexed for inflation in the price of cigarettes so it increases with overall increases in cigarette prices.)

The taxes and fees on tobacco products, such as cigars, pipe tobacco, snuff, and chewing tobacco, are imposed as a percentage of their wholesale prices. Thus, these taxes fluctuate as the prices of the products change.

Tax or fee	Per pack of 20 rate	Percent of price
Cigarette excise tax	48 cents	NA
Tobacco products excise tax	NA	35%
Health impact fee	75 cents	35%
Fee on cigarettes manufactured by nonsettling companies	35 cents	NA
Tax in lieu of general sales tax (rate effective August 1, 2010 through December 31, 2011)	34.6 cents	NA

***A per-pack tax applies in lieu of the state general sales tax***

Since 2005, cigarette sales have been exempt from state and local general sales taxes. A per-pack tax applies instead of the sales tax. The commissioner of revenue annually sets this in-lieu tax based on a survey of retail prices of cigarettes in the state. The rate is set as an average of these prices and is reset each August 1 (starting in 2012, it will be reset each January 1). The in lieu tax does not replace local sales taxes, although cigarette sales are exempt from these local taxes.

***Payments made to settle state lawsuits against the tobacco industry have similar effects as excise taxes***

Settlements of the states’ lawsuits against the tobacco companies have about the same economic effect as a cigarette tax, since these settlement payments are passed along to consumers (nationally) through higher cigarette prices. However, they do not affect companies that were not part of the lawsuit or that have not entered the Master Settlement Agreement as participating manufacturers.

To compensate partially for the lower prices of cigarettes produced by nonsettling companies, the 2003 Legislature imposed a 35-cent per-pack fee on those cigarettes. Michigan and Utah also impose a 35-cent surcharge on these cigarettes.

***The Minnesota Supreme Court upheld both of the fees***

Industry interests challenged both cigarette fees on various grounds. The Minnesota Supreme Court rejected these challenges, upholding the state’s power to impose the fees. The United States Supreme Court in both instances declined to hear the cases. *Council of Independent Tobacco Mfr. v. State*, 713 N.W.2d 300 (Minn. 2006) *cert. denied* 549 U.S. 1052 (2006) (fee on nonsettling companies); *State v. Philip Morris*, 713 N.W.2d 350 (Minn. 2006) *cert. denied* 549 U.S. 1206 (2007) (health impact fee).

**The taxes and fees are estimated to yield revenues of over \$424 million in FY 2012**

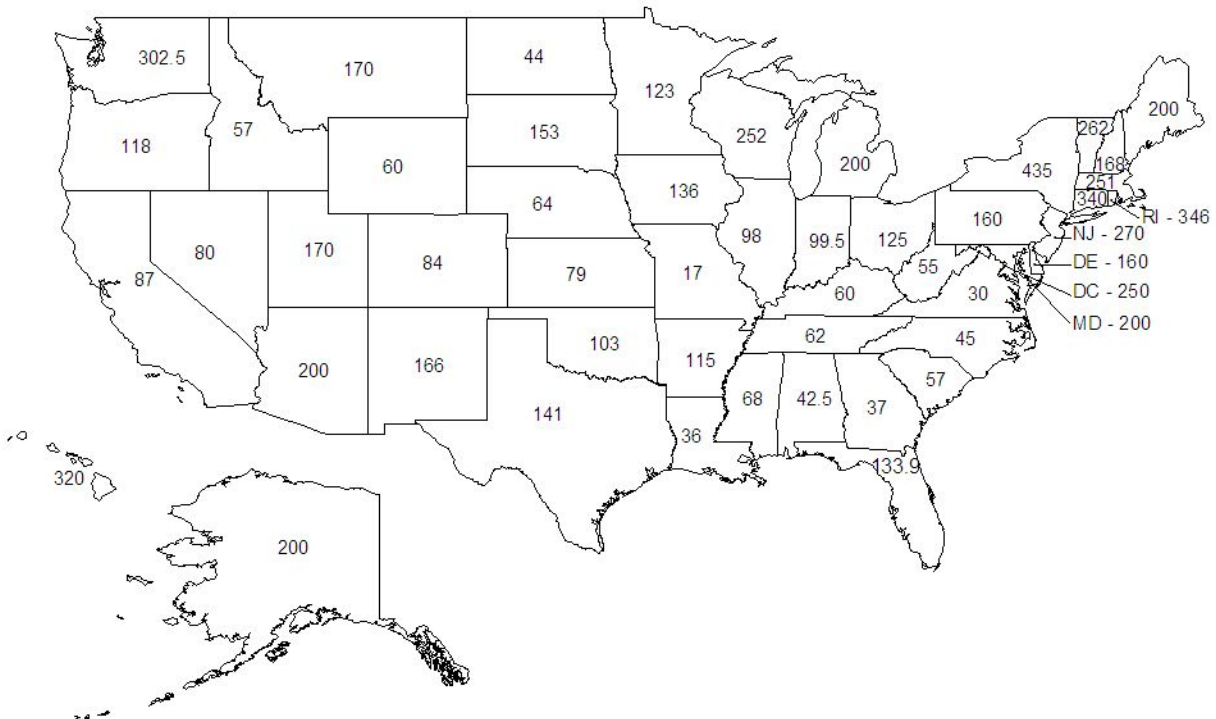
For fiscal year 2012, Minnesota Management and Budget estimates collections from the two excise taxes and the sales tax on cigarettes will be \$221.8 million and from the health impact fee, \$202.5 million (February 2011 forecast). Revenues from the tobacco products tax are deposited in the general fund. Each fiscal year, cigarette tax revenues of \$22.25 million go to fund the Academic Health Center, \$3,937,000 to the medical education and research account, and the rest to the state general fund. The health impact fee revenues are deposited in a health impact fund and are transferred to the general fund after the commissioner of human services certifies that state health programs have incurred tobacco-related costs equal to the fee.

**Neighboring states have higher tax rates**

Because cigarettes can easily be transported, the tax rates in other states (especially border states) are important. Taking into account the combined effects of Minnesota's tax and fee (\$1.23/pack), three bordering states have higher rates: Wisconsin (\$2.52), South Dakota (\$1.53), and Iowa (\$1.36). North Dakota (44 cents) has a lower rate. All states' rates are shown on the map below. The map does not reflect local cigarette taxes; some of these local taxes are substantial (e.g., \$1.50 in New York City and \$2.68 per pack in Chicago). The map does not reflect the effect of general sales taxes (including Minnesota's per-pack tax in lieu of the sales tax). Some states have no sales tax or exempt cigarettes from sales taxation, lowering the overall tax burden.

### State Cigarette Tax Rates\*

as of 7/1/2011  
cents per pack



\* These exclude some significant local taxes.  
Source: Federation of Tax Administrators and other sources

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