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Joel Michael Updated: January 2015

Cigarette and Tobacco Excise Taxes and Fees

Minnesota imposes a $2.90/pack tax on cigarettes, annually indexed for inflation

Minnesota imposes an excise tax on the sale or possession of cigarettes of $2.90 per pack of 20. The excise tax on cigarettes is imposed on a "per unit" basis—i.e., on the number of cigarettes sold, not as a percentage of the sale price. As a result, the tax does not vary based on the price of the brand purchased or change as the prices rise or fall. However, under 2013 legislation the tax rate is annually adjusted (each January 1) for the change in the average retail price of cigarettes in the state. The 2013 legislation set the cigarette excise tax rate at $2.83 per pack (a $1.60 increase); the first indexing adjustment, effective January 1, 2015, increased the rate by 7 cents to the $2.90 per pack rate that now applies.

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

Since 2005, cigarette sales have been exempt from state and local 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 Minnesota retail cigarette prices. The rate is set as an average of these prices and is reset January 1 for the calendar year. Effective January 1, 2015, the rate is 52.6 cents/pack. The tax does not replace local sales taxes, although cigarettes 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 similar economic effects to cigarette taxes, since these settlement payments are passed along to consumers (nationally) as 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 for the lower prices of cigarettes produced by nonsettling companies, the 2003 Legislature imposed a 35-cent per-pack fee on those cigarettes. The 2013 Legislature increased this fee to 50 cents.

A 95 percent excise tax applies to other tobacco products

An excise tax of 95 percent of the wholesale price applies to other tobacco products, such as cigars, pipe tobacco, snuff, and chewing tobacco. Since this tax is a percentage of price, it fluctuates as the prices of the products change with two exceptions to this general rule, both enacted by the 2013 Legislature:

- A minimum tax applies to each container of moist snuff equal to the tax rate on a pack of 20 cigarettes.
- Premium cigars (hand-rolled with a wholesale price of $2/cigar or more) are subject to a maximum tax of $3.50/cigar.

A use tax can apply, if Minnesota tax has otherwise not been paid

A use tax applies to consumers who purchase untaxed cigarettes (e.g., over the Internet or in-person in another state) for use in Minnesota. The tax is the same as the rate of the excise tax. The use tax does not apply to one carton of cigarettes purchased in another state and brought into the state by the individual. For larger quantities brought into the state and for any quantity shipped to the consumer in Minnesota, the use tax applies.

The taxes are estimated to yield revenues of $614 million in FY 2015

For fiscal year 2015, Minnesota Management and Budget estimates collections from the two excise taxes and the sales tax on cigarettes were $614.4 million (2014 November 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, $3.94 million to the medical education and research account, and the rest to the state general fund.

Minnesota has higher excise tax rate than the neighboring states

Because cigarettes can easily be transported, the tax rates in other states (especially border states) are important. Minnesota excise tax ($2.90/pack) is higher than any of the bordering states: Wisconsin ($2.52), South Dakota ($1.53), Iowa ($1.36), North Dakota (44 cents). 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 $4.18 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 1/1/2015
cents per pack

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

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