

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 tax is a per unit tax, it does not increase as the price of cigarettes increases. By contrast, 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.

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 for FY2008)	27.4 cents	NA

The 2005 Legislature converted the sales tax to a per pack tax and imposed the health impact fee

The 2005 Legislature made two changes in cigarette and tobacco products taxation:

- It converted the 6.5 percent state general sales tax on cigarettes to a flat amount per pack tax collected from wholesalers (rather than as a percentage of the retail sale prices, as other products are taxed under the sales tax). The commissioner of revenue annually sets the amount based on a survey of the average retail price of cigarettes. Effective August 1, 2008, the commissioner set the rate at 27.4 cents. The previous rate was 26 cents.
- The 2005 Legislature also imposed a health impact fee of 75 cents per pack of cigarettes and 35 percent of the wholesale price of tobacco products. Combining the Minnesota’s excise tax and fee, the burden equals \$1.23 per pack and 70 percent of the wholesale price of tobacco products. This fee is imposed and collected in the same manner as the cigarette excise tax.

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. 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. *Council of Independent Tobacco Mfr. v. State*, 713 N.W.2d 300 (Minn. 2006) cert. denied 127 S.Ct. 666 (2006) (fee on nonsettling companies); *State v. Philip Morris*, 713 N.W.2d 350 (Minn. 2006) cert. denied 127 S.Ct. 1259 (2007) (health impact fee).

The taxes and fees are estimated to yield revenues of about \$450 million

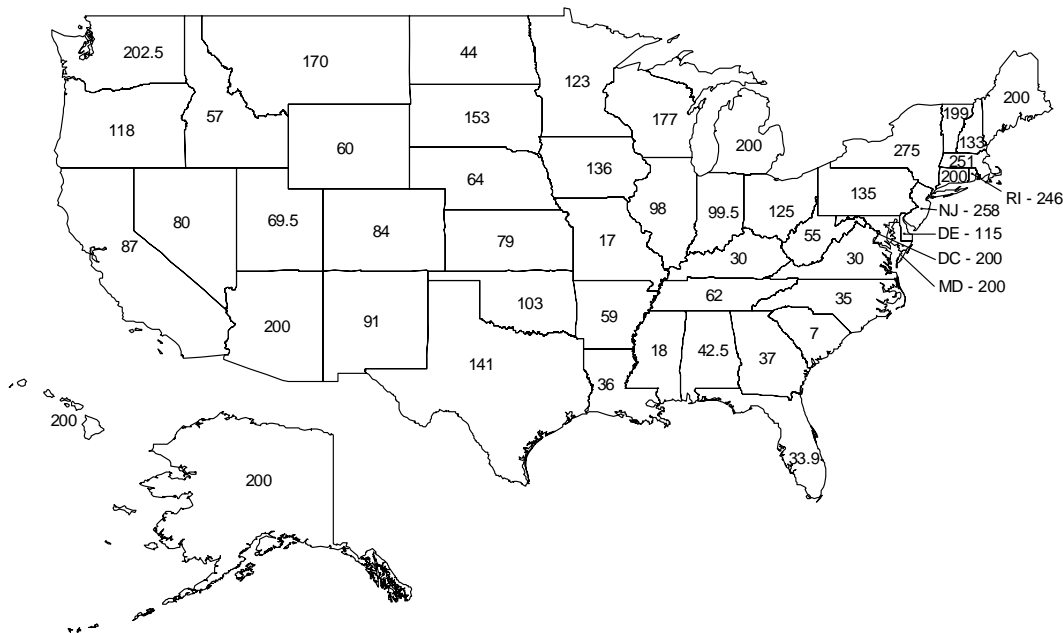
For fiscal year 2009, Minnesota Management and Budget estimates collections from the two excise taxes and the sales tax on cigarettes will be \$211.6 million and from the health impact fee, \$210.4 million (November 2008 forecast). Revenues from the tobacco products tax are deposited in the general fund. Each fiscal year, cigarette tax revenues of \$22.25 million go to fund the Academic Health Center, \$8.55 million 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 (\$1.77), 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., \$3.66 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. Hawaii's tax is scheduled to increase beyond the rate on the map by 20 cents each July 1 from 2009 through 2011.

State Cigarette Tax Rates*

as of 1/1/2009
cents per pack



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

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