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State of Minnesota
HOUSE OF REPRESENTATIVES
NINETIETH SESSION

H. F. No. 2790

02/09/2018 Authored by Freiberg, Lee, Ecklund, Youakim, Considine and others
The bill was referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; increasing the cigarette excise tax rate; requiring an annual
1.3 inflation adjustment to the cigarette excise tax rate; increasing the premium cigar
1.4 tax rate; appropriating money; amending Minnesota Statutes 2016, section 297F.05,
1.5 by adding a subdivision; Minnesota Statutes 2017 Supplement, sections 297F.05,
1.6 subdivisions 1, 3a, 4a; 297F.10, subdivision 1.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. Minnesota Statutes 2017 Supplement, section 297F.05, subdivision 1, is amended
1.9 to read:

1.10 Subdivision 1. **Rates; cigarettes.** A tax is imposed upon the sale of cigarettes in this
1.11 state, upon having cigarettes in possession in this state with intent to sell, upon any person
1.12 engaged in business as a distributor, and upon the use or storage by consumers, at the rate
1.13 of ~~152~~ 159 mills, or ~~15.2~~ 15.9 cents, on each cigarette.

1.14 **EFFECTIVE DATE.** This section is effective July 1, 2018.

1.15 Sec. 2. Minnesota Statutes 2016, section 297F.05, is amended by adding a subdivision to
1.16 read:

1.17 Subd. 1b. **Annual indexing.** (a) Each year, the commissioner shall adjust the tax rates
1.18 under subdivision 1, including any adjustment made in prior years under this subdivision,
1.19 by multiplying the mill rates for the current calendar year by an adjustment factor and
1.20 rounding the result to the nearest mill. The adjustment factor equals the in-lieu sales tax
1.21 rate that applies to the following calendar year divided by the in-lieu sales tax rate for the
1.22 current calendar year. For purposes of this subdivision, "in-lieu sales tax rate" means the
1.23 tax rate established under section 297F.25, subdivision 1. For purposes of the calculations

2.1 under this subdivision to be made in any year in which an increase in the federal or state
 2.2 excise tax on cigarettes is implemented, the commissioner shall exclude from the calculated
 2.3 average price for the current year an amount equal to any increase in the state or federal
 2.4 excise tax rate.

2.5 (b) The commissioner shall publish the resulting rate by November 1, and the rate applies
 2.6 to sales made on or after January 1 of the following year.

2.7 (c) The determination of the commissioner under this subdivision is not a rule and is
 2.8 not subject to the Administrative Procedure Act under chapter 14, including section 14.386.

2.9 **EFFECTIVE DATE.** This section is effective the day following final enactment and
 2.10 applies beginning with rates calculated for calendar year 2019.

2.11 Sec. 3. Minnesota Statutes 2017 Supplement, section 297F.05, subdivision 3a, is amended
 2.12 to read:

2.13 Subd. 3a. **Rates; premium cigars.** (a) A tax is imposed upon all premium cigars in this
 2.14 state and upon any person engaged in business as a tobacco product distributor, at the lesser
 2.15 of:

2.16 (1) the rate of 95 percent of the wholesale sales price of the premium cigars; or

2.17 (2) ~~\$0.50~~ \$3.50 per premium cigar.

2.18 (b) The tax imposed under paragraph (a) is imposed at the time the tobacco products
 2.19 distributor:

2.20 (1) brings, or causes to be brought, into this state from outside the state premium cigars
 2.21 for sale;

2.22 (2) makes, manufactures, or fabricates premium cigars in this state for sale in this state;

2.23 or

2.24 (3) ships or transports premium cigars to retailers in this state, to be sold by those retailers.

2.25 **EFFECTIVE DATE.** This section is effective for cigars brought into the state or
 2.26 manufactured in the state on or after July 1, 2018.

2.27 Sec. 4. Minnesota Statutes 2017 Supplement, section 297F.05, subdivision 4a, is amended
 2.28 to read:

2.29 Subd. 4a. **Use tax; premium cigars.** A tax is imposed upon the use or storage by
 2.30 consumers of all premium cigars in this state, and upon such consumers, at the lesser of:

- 3.1 (1) the rate of 95 percent of the cost to the consumer of the premium cigars; or
 3.2 (2) ~~\$0.50~~ \$3.50 per premium cigar.

3.3 **EFFECTIVE DATE.** This section is effective for cigars for which the consumer has
 3.4 acquired title to, or possession of, on or after July 1, 2018.

3.5 Sec. 5. Minnesota Statutes 2017 Supplement, section 297F.10, subdivision 1, is amended
 3.6 to read:

3.7 Subdivision 1. **Tax and use tax on cigarettes and premium cigars.** (a) Revenue received
 3.8 from cigarette taxes, as well as related penalties, interest, license fees, and miscellaneous
 3.9 sources of revenue shall be deposited by the commissioner in the state treasury and credited
 3.10 as follows:

3.11 (1) \$22,250,000 each year must be credited to the Academic Health Center special
 3.12 revenue fund hereby created and is annually appropriated to the Board of Regents at the
 3.13 University of Minnesota for Academic Health Center funding at the University of Minnesota;
 3.14 ~~and~~

3.15 (2) \$3,937,000 each year must be credited to the medical education and research costs
 3.16 account hereby created in the special revenue fund and is annually appropriated to the
 3.17 commissioner of health for distribution under section 62J.692, subdivision 4; ~~and~~

3.18 (3) \$12,500,000 each year must be credited to the tobacco use prevention account hereby
 3.19 created in the special revenue fund and is annually appropriated to the commissioner of
 3.20 health for the purposes in paragraph (c); and

3.21 ~~(3)~~ (4) the balance of the revenues derived from taxes, penalties, and interest (under this
 3.22 chapter) and from license fees and miscellaneous sources of revenue shall be credited to
 3.23 the general fund.

3.24 (b) Of the revenue received from the tax on premium cigars, as well as related penalties,
 3.25 interest, license fees, and miscellaneous sources of revenue, \$1,800,000 each year must be
 3.26 credited to the tobacco use prevention account in the special revenue fund created in
 3.27 paragraph (a), clause (3), and is annually appropriated to the commissioner of health for
 3.28 the purposes in paragraph (c). The balance of the revenues derived from taxes, penalties,
 3.29 and interest under this chapter and from license fees and miscellaneous sources of revenue
 3.30 shall be credited to the general fund.

3.31 (c) Money appropriated under paragraphs (a), clause (3); and (b) must be spent for:

3.32 (1) the duties under section 144.392;

4.1 (2) distribution under section 144.396;

4.2 (3) any other purpose related to tobacco use prevention authorized by state law; or

4.3 (4) smoking cessation services.

4.4 (d) The commissioner of health may administer or contract for the administration of a
4.5 smoking cessation service. For purposes of this paragraph, "smoking cessation services"
4.6 includes any statewide service that provides assistance to Minnesotans who are seeking
4.7 advice or services to help them quit using tobacco products and any public awareness
4.8 activities for that service.

4.9 **EFFECTIVE DATE.** This section is effective July 1, 2019.