

2.1 of which is made of paper or any other substance or material except whole tobacco leaf,
2.2 and includes any cigarette as defined in section 297F.01, subdivision 3.

2.3 Sec. 4. **TOBACCO TAX COLLECTION REPORT.**

2.4 Subdivision 1. Report to legislature. (a) The commissioner of revenue shall report
2.5 to the 2012 legislature on the tobacco tax collection system, including recommendations
2.6 to improve compliance under the excise tax for both cigarettes and other tobacco products.
2.7 The purpose of the report is to provide information and guidance to the legislature on
2.8 improvements to the tobacco tax collection system to:

2.9 (1) provide a unified system of collecting both the cigarette and other tobacco
2.10 products taxes, regardless of category, size, or shape, that ensures the highest reasonable
2.11 rates of tax collection;

2.12 (2) discourage tax evasion; and

2.13 (3) help to prevent illegal sale of tobacco products, which may make these products
2.14 more accessible to youth.

2.15 (b) In the report, the commissioner shall:

2.16 (1) provide a detailed review of the present excise tax collection and compliance
2.17 system as it applies to both cigarettes and other tobacco products. This must include
2.18 an assessment of the levels of compliance for each category of products and the effect
2.19 of the stamping requirement on compliance rates for cigarettes relative to other tobacco
2.20 products. It also must identify any weaknesses in the system;

2.21 (2) survey the methods of collection and enforcement used by other states or nations,
2.22 including identifying and discussing emerging best practices that ensure tracking of both
2.23 cigarettes and other tobacco products and result in the highest rates of tax collection and
2.24 compliance. These best practices must consider high-technology alternatives, such as use
2.25 of bar codes, radio-frequency identification tags, or similar mechanisms for tracking
2.26 compliance;

2.27 (3) evaluate the adequacy and effectiveness of the existing penalties and other
2.28 sanctions for noncompliance;

2.29 (4) evaluate the adequacy of the resources allocated by the state to enforce the
2.30 tobacco tax and prevention laws; and

2.31 (5) make recommendations on implementation of a comprehensive tobacco tax
2.32 collection system for Minnesota that can be implemented by January 1, 2014, including:

2.33 (i) recommendations on the specific steps needed to institute and implement the new
2.34 system, including estimates of the state's costs of doing so and any additional personnel
2.35 requirements;

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3.1 (ii) recommendations on methods to recover the cost of implementing the system
3.2 from the industry;

3.3 (iii) evaluation of the extent to which the proposed system is sufficiently flexible
3.4 and adaptable to adjust to modifications in the construction, packaging, formatting, and
3.5 marketing of tobacco products by the industry; and

3.6 (iv) recommendations to modify existing penalties or to impose new penalties or
3.7 other sanctions to ensure compliance with the system.

3.8 Subd. 2. **Due date.** The report required by subdivision 1 is due January 15, 2012.

3.9 Subd. 3. **Procedure.** The report required under this section must be made in the
3.10 manner provided under Minnesota Statutes, section 3.195. In addition, copies must be
3.11 provided to the chairs and ranking minority members of the legislative committees and
3.12 divisions with jurisdiction over taxation.

3.13 Subd. 4. **Appropriation.** (a) \$..... is appropriated from the general fund to the
3.14 commissioner of revenue for fiscal year 2012 for the cost of preparing the report under
3.15 subdivision 1.

3.16 (b) The appropriation under this subdivision is a onetime appropriation and is not
3.17 included in the base budget.