

# CIGARETTE & TOBACCO TAX INCREASE – INITIATIVE NO. 149

## INTRODUCTION

On November 2, 2004, the electorate adopted the cigarette and tobacco tax increase contained in Initiative 149 (I-149). This initiative increases the tax on all tobacco products (cigarettes, moist snuff, and other tobacco products) and also changes the distribution of the tax proceeds.

The tax rate on cigarettes is increased from \$0.70 per 20-count pack to \$1.70 per pack, or an increase of 142.9 percent. The tax on moist snuff is also increased from \$0.50 per ounce to \$0.85 per ounce for an increase of 70.0 percent. The tax on all other tobacco products is increased from 25 percent of the value of the commodity to 50 percent of the value, or a 100 percent increase. The effective date of the initiative is January 1, 2005, and applies to all tobacco products received by wholesalers after December 21, 2004. Figure 3 compares the tax rates under the old law versus the new law.

Figure 3  
Cigarette and Tobacco Tax Rates  
Old Law vs. New Law

Commodity	Unit	Old Law		New Law	
		Tax Rate	Tax Rate	Change	Percent Change
Cigarette Tax	Per 20 Count Pack	\$0.70	\$1.70	\$1.00	142.9%
Moist Snuff Tax	Per Ounce	\$0.50	\$0.85	\$0.35	70.0%
Other Tobacco Products	Per Value	25.0%	50.0%	25.0%	100.0%

## ESTIMATED REVENUE

The estimated revenue collections shown in Figure 4 are based on the assumptions adopted by the Revenue and Transportation Interim Committee (RTIC) on November 16, 2004. The assumptions used in estimating tobacco taxes included cigarette and tobacco consumption, the change in this consumption due to the increase in the tax rates, and the tribal revenue sharing agreements. The consumption estimates (prior to I-149) were based on Montana adult population and the historical consumption decline rates.

Figure 4  
Cigarette and Tobacco Tax Revenue Estimates  
Based on Revenue & Transportation Interim Committee Assumptions  
Old Law vs. New Law / Fiscal 2005, 2006, 2007  
In Millions

	FY 2005		FY 2006		FY 2007		3 Years	
	Old Law	New Law	Old Law	New Law	Old Law	New Law	Old Law	New Law
<b>Cigarette Tax</b>								
Tribal Payments	0.803	0.803	1.195	1.735	1.166	2.234	3.164	4.772
General Fund	34.639	34.608	33.321	33.193	32.397	32.030	100.357	99.831
Long-Range Building Program	1.704	1.849	1.639	1.914	1.594	1.847	4.937	5.610
State Veterans' Nursing Home *	3.289	4.826	3.164	6.109	3.077	5.895	9.530	16.830
Health & Medicaid Initiatives	0.000	16.867	0.000	32.383	0.000	31.249	0.000	80.499
<b>Totals</b>	<b>\$40.435</b>	<b>\$58.953</b>	<b>\$39.519</b>	<b>\$75.334</b>	<b>\$38.234</b>	<b>\$73.255</b>	<b>\$117.988</b>	<b>\$207.542</b>
<b>Change</b>		<b>\$18.518</b>		<b>\$36.015</b>		<b>\$35.021</b>		<b>\$89.554</b>
<b>Moist Snuff &amp; Other Tobacco Tax</b>								
Tribal Payments	0.085	0.085	0.107	0.163	0.110	0.223	0.302	0.471
General Fund	3.687	3.677	3.760	3.779	3.855	3.847	11.302	11.303
Health & Medicaid Initiatives	0.000	1.861	0.000	3.779	0.000	3.847	0.000	2.487
<b>Totals</b>	<b>\$3.772</b>	<b>\$5.623</b>	<b>\$3.867</b>	<b>\$7.721</b>	<b>\$3.965</b>	<b>\$7.917</b>	<b>\$11.604</b>	<b>\$21.261</b>
<b>Change</b>		<b>\$1.851</b>		<b>\$3.854</b>		<b>\$3.952</b>		<b>\$9.657</b>
<b>All Tobacco Taxes Combined</b>	<b>\$44.207</b>	<b>\$64.576</b>	<b>\$43.186</b>	<b>\$83.055</b>	<b>\$42.199</b>	<b>\$81.172</b>	<b>\$129.592</b>	<b>\$228.803</b>
<b>Change</b>		<b>\$20.369</b>		<b>\$39.869</b>		<b>\$38.973</b>		<b>\$99.211</b>

\* The greater of 8.3 percent or \$2.0 million. Excess above \$2.0 million at the end of fiscal year is returned to the general fund.