EXHIBIT 3
DATE 3/24/11
HB 626

NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A $1.50 CIGARETTE TAX INCREASE IN MONTANA

Current state cigarette tax: $1.70 per pack (17th among all states)
Smoking-caused costs in Montana: $9.17 per pack

Annual healthcare expenditures in Montana directly caused by tobacco use: $277 million
Smoking-caused state Medicaid program spending each year: $67.0 million

New Annual Revenue from Increasing the Cigarette Tax Rate by $1.50 Per Pack: $29.9 million

Additional Revenue from Raising Other Tobacco Product Rates to Parallel New Levels: $6.8 million

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits from the Cigarette Tax Rate Increase	
Percent decrease in youth smoking:	**18.2%**
Kids in Montana kept from becoming addicted adult smokers:	**9,400**
Current adult smokers in the state who would quit:	**5,200**
Smoking-affected births avoided over next five years:	**1,950**
Montana residents saved from premature smoking-caused death:	**4,300**
5-year health savings from fewer smoking-affected pregnancies & births:	**$3.3 million**
5-year health savings from fewer smoking-caused heart attacks & strokes:	**$2.3 million**
Long-term health savings in the state from adult & youth smoking declines:	**$213.9 million**

- Tax increases of less than roughly 25 cents per pack or 10% of the average state pack price do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state more revenues, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, RYO, or smokeless.

Needed State Efforts to Protect State Tobacco Tax Revenues

Having each of the following measures in place will maintain and increase state tobacco tax revenues by closing loopholes, blocking contraband trafficking, and preventing tax evasion.

State tax rate on RYO cigarettes equals the state tax rate on regular cigarettes	No
State tax rates on other tobacco products match the state cigarette tax rate	No
State definitions of "cigarette" block cigarettes from wrongfully qualifying as "cigars"	No
State definitions of "tobacco product" reach all tobacco products	No
Loopholes for the new generation of smokeless products (snus, tablets, etc.) closed	No
Minimum taxes on all tobacco products to block tax evasion and promote tax equity	No
"High-tech" tax stamps to stop counterfeiting and other smuggling and tax evasion	No
Retailers lose license if convicted of contraband trafficking	Yes
Street sales and mobile sales of cigarettes and other tobacco products prohibited	Yes
Non-Tobacco nicotine products without FDA approval banned	No

More information available at **http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18**

Campaign for Tobacco-Free Kids 10.07.10 / Ann Boonn, February 7, 2011

Explanations & Notes

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Projections are based on research findings that each 10% cigarette price increase reduces youth smoking by 6.5%, adult rates by 2%, and total consumption by 4% (adjusted down to account for tax evasion effects). Revenues still increase because the higher tax rate per pack will bring in more new revenue than is lost from the tax-related drop in total pack sales.

The projections incorporate the effect of both ongoing background smoking declines and the continued impact of the 61.66-cent federal cigarette tax increase (effective April 1, 2009) on prices, smoking levels and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf.

Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over the lifetimes of persons who stop smoking or never start because of the rate increase. All cost and savings in 2004 dollars. Projections will be updated when new relevant data or research becomes available.

Ongoing reductions in state smoking levels will, over time, gradually erode state cigarette tax revenues (in the absence of any new rate increases). But those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues (which can drop sharply during recessions). In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused costs. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, http://tobaccofreekids.org/research/factsheets/pdf/0303.pdf.

For other ways states can increase revenues (and promote public health) other than just raising its cigarette tax, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs,* http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf.

For more on sources and calculations, see
http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf

Additional Information on Tobacco Product Tax Increases

Raising State Cigarette Taxes Always Increases State Revenues and Always Reduces Smoking, http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf.

Responses to Misleading and Inaccurate Cigarette Company Arguments Against State Tobacco Tax Increases, http://tobaccofreekids.org/research/factsheets/pdf/0227.pdf.

State Cigarette Excise Tax Rates & Rankings, http://tobaccofreekids.org/research/factsheets/pdf/0097.pdf.

Top Combined State-Local Cigarette Tax Rates (State plus County plus City), http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf.

State Cigarette Tax Increases Benefit Lower-Income Smokers and Families, http://tobaccofreekids.org/research/factsheets/pdf/0147.pdf.

The Best Way to Tax Smokeless Tobacco, http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf.

The Problem with Roll-Your-Own (RYO) Tobacco, http://tobaccofreekids.org/research/factsheets/pdf/0336.pdf.

How to Make State Cigar Tax Rates Fair and Effective, http://tobaccofreekids.org/research/factsheets/pdf/0335.pdf.

State Benefits from Increasing Smokeless Tobacco Tax Rates, http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf.

The Case for High-Tech Cigarette Tax Stamps, http://tobaccofreekids.org/research/factsheets/pdf/0310.pdf.

State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion, http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf.

The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs, http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf

For questions or model legislation, please contact factsheets@tobaccofreekids.org.