

Cigarette Tax

Revenue Description

An excise tax is levied on all cigarettes sold in Montana. The tax is collected from the wholesaler through sale of insignia and passed down to the retail consumer. The insignia are purchased from the state and affixed to each package of cigarettes. The state has agreements with six of the tribes in Montana (Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, Crow, and Northern Cheyenne) wherein the sale of cigarettes on a reservation, up to a set quota, are untaxed and state cigarette tax revenues are shared with the tribes.

Statutory Reference

Tax Rate – [16-11-111, MCA](#)

Tax Distribution – [16-11-119, MCA](#)

Date Due – Within 30 days after purchase of the insignia ([16-11-117, MCA](#))

Applicable Tax Rates

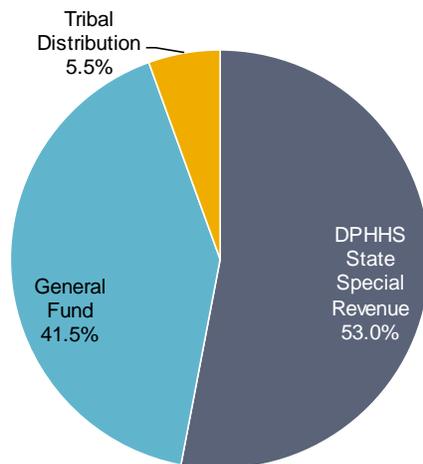
\$1.70 per package of 20 cigarettes, prorated by cigarette for packages that differ from 20 cigarettes

Collection Frequency: Monthly

Distribution

Cigarette tax revenue is distributed between the general fund, various state special revenue accounts administrated by the Department of Public Health and Human Services (DPHHS), the long range building fund, and five tribal governments according to intergovernmental agreements between the Department of Revenue (DOR) and the tribes. Cigarette tax dollars are distributed to the tribes according to the following formula: $(1.5) \times (\text{Montana per capita cigarette tax revenue}) \times (\text{enrolled tribal population})$. This formula may be superseded by another agreed upon amount.

The following chart shows the FY 2014 distribution of cigarette tax revenue.



Comparison of Legislative and Executive Forecasts

There are no material differences between the legislative and executive branch forecasts.

Cigarette Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$30.180	\$30.630	\$30.250	\$91.060
Legislative Forecast	30.363	30.914	30.191	91.468
Difference	(\$0.183)	(\$0.284)	\$0.059	(\$0.408)
% Difference	-0.6%	-0.9%	0.2%	-0.4%

Forecast Risks

- Changes in tobacco CPI
- Changes in consumer spending
- Rate of change in effective tax rate

Revenue Estimate MethodologyData

The cigarette tax estimate is based on data obtained from DOR, SABHRS, and IHS. Details on tax collections by month and refunds for quota sales are provided by DOR; fiscal year tax collections are from SABHRS; forecasts for independent economic variables are produced by IHS.

DOR data are used to develop an effective tax rate accounting for numbers of different sized packs sold. IHS data provide regressors to model growth in packs sold.

Analysis

Total tax collections are calculated by multiplying the number of packs sold in a given year by the effective tax rate in that year. The number of packs sold is forecast with a regression model using the independent, IHS-provided values for national tobacco CPI, and national consumer spending on tobacco. Additionally, the model employs the previous year's packs sold as an auto-regressive component.

The effective tax rate is on a consistent upward trend; the number of packs sold is steadily declining, but a higher proportion of those packs include 25 rather than 20 cigarettes. This analysis assumes that the increase in the effective rate continues through the biennium by applying the current rate of change going forward.

Revenue Estimate Assumptions

FY	Total Tax \$ Millions	GF Tax \$ Millions	Effective Tax Rate \$/Pack	Approximate Packs Sold (Millions)	CPI Tobacco	Cons. Spend. Tobacco \$ Millions
A 2002	\$11.052	\$7.887	\$0.16	65.194	61	\$69.700
A 2003	16.093	12.576	0.25	65.320	65	70.572
A 2004	41.583	36.002	0.69	64.177	65	71.906
A 2005	54.765	35.117	0.93	59.791	67	75.045
A 2006	80.180	34.573	1.67	58.699	71	79.144
A 2007	83.380	35.830	1.68	48.277	74	82.489
A 2008	83.883	36.004	1.67	49.389	78	84.854
A 2009	79.906	34.320	1.66	49.078	88	92.090
A 2010	77.071	32.218	1.67	45.572	107	104.030
A 2011	74.091	30.992	1.65	43.699	113	107.823
A 2012	75.533	31.483	1.66	42.592	116	108.577
A 2013	74.790	31.011	1.68	42.989	119	108.518
A 2014	73.840	30.623	1.69	41.643	123	107.220
F 2015	71.923	30.363	1.70	42.233	125	105.242
F 2016	71.128	30.914	1.72	41.445	130	106.805
F 2017	69.463	30.191	1.73	40.164	137	108.512

Revenue Projection

