
Legislative Fiscal Division

Revenue Estimate Profile

Cigarette Tax

Revenue Description: The cigarette tax is an excise tax imposed on all cigarettes sold or possessed in Montana. The tax is imposed on the retail consumer, but is collected by wholesalers or retailers through the use of tax insignia. The insignias are purchased from the state and affixed to each package of cigarettes. The tax does not apply to quota cigarettes sold on an Indian reservation. In practice, the tax is levied on all cigarettes and the wholesaler receives a refund for the amount within the quota that has been sold within the boundaries of an Indian reservation. Each tribe's quota is equal to 150.0% of Montana's per capita general fund cigarette tax revenue multiplied by the enrolled tribal member population, or any other amount agreed to in a state-tribal agreement. The state has agreements with five tribes in Montana.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 increasing the tax on cigarettes to \$0.70 per 20-cigarette package, a 289% increase from the previous \$0.18 tax. Shortly thereafter, the electorate approved I-149 that raised the tax on packs of 20 cigarettes by \$1.00 to \$1.70, beginning January 1, 2005, an increase of 143%. Both SB 407 and I-149 changed the distributor percentage discounts, but the amounts that distributors are allowed to retain for administration of the tax stayed relatively constant. SB 407 changed the distribution of the tax revenues to increase the amount deposited into the state general fund. I-149 increased tax revenues for veterans' nursing home operation and maintenance and provided revenue to a new state special revenue fund for health and Medicaid initiatives. The 2009 Legislature enacted HB 213 and established a new 1.2% distribution only for the 2011 biennium to fund a state veterans' home in southwestern Montana. The 2011 Legislature enacted HB 296 which extended the 1.2% distribution through FY 2015. The distribution to the general fund is reduced by 1.2%.

Note: If the money in the veteran's cigarette account at the end of a fiscal year exceeds \$2.0 million, after reductions for budgeted present law amounts for each fiscal year, the excess is transferred to the general fund as a revenue transfer to the "All Other Revenue" source.

Statutory Reference:

Tax Rate (MCA) – 16-11-111

Tax Distribution (MCA) – 16-11-119

Date Due – within 30 days after purchase of the insignia (16-11-117)

Applicable Tax Rate(s):

- Beginning January 2005, the excise tax on cigarettes is \$1.70 per package of 20 cigarettes, prorated for packages that differ from 20 cigarettes.
- Wholesalers pay a license fee of \$50.00 and each retailer pays a license fee of \$5.00. License fees are renewable each year and are non-transferable. Revenue from these fees is shown in "All Other General Fund Revenue".

Distribution: All wholesaler and retailer license fees are deposited in the general fund. After deductions for tribal refunds, the cigarette tax revenue is distributed:

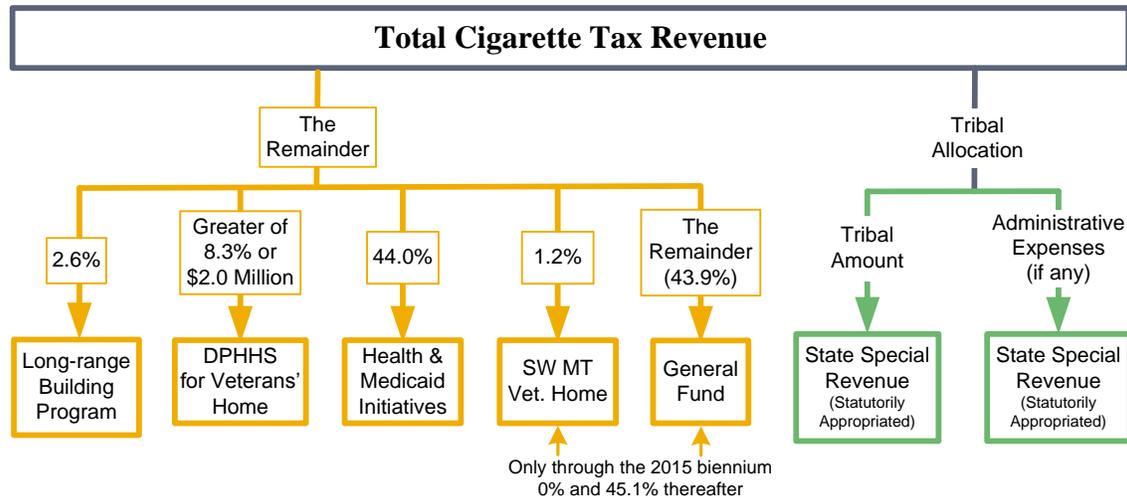
- The greater of 8.3% or \$2.0 million to DPHHS for veterans' nursing home operation and maintenance
- 2.6% to the long-range building program
- 44.0% for health and Medicaid initiatives and children health insurance
- 1.2% for a veterans' home in southwestern Montana only through FY 2015
- The remainder (43.9%) to the general fund through FY 2015, 45.1% thereafter

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Distribution Chart



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 2.61%	FY 2007 – 1.95%	FY 2010 – 1.98%
FY 2005 – 2.29%	FY 2008 – 1.83%	FY 2011 – 1.74%
FY 2006 – 2.02%	FY 2009 – 1.90%	FY 2012 – 1.68%

Revenue Estimate Methodology:

Data

Data from the state accounting system (SABHRS) and the Department of Revenue (DOR) are used to forecast cigarette tax revenues. The DOR provides information on the number of cigarette insignias (stamps) sold in each month and the amount of discounts given to cigarette distributors. Historic fiscal year tax collections are available through SABHRS.

DOR provides detailed information on the sales of tax insignias by pack size, company, tribal, and month. To prepare the data for analysis, the total number of insignia sales is reduced by discounts and refunds given to the distributor. The resulting amount serves as a proxy for the number of taxable cigarette packs consumed per year. The actual SABHRS data serves as a check against the number of proxy packs of cigarettes calculated.

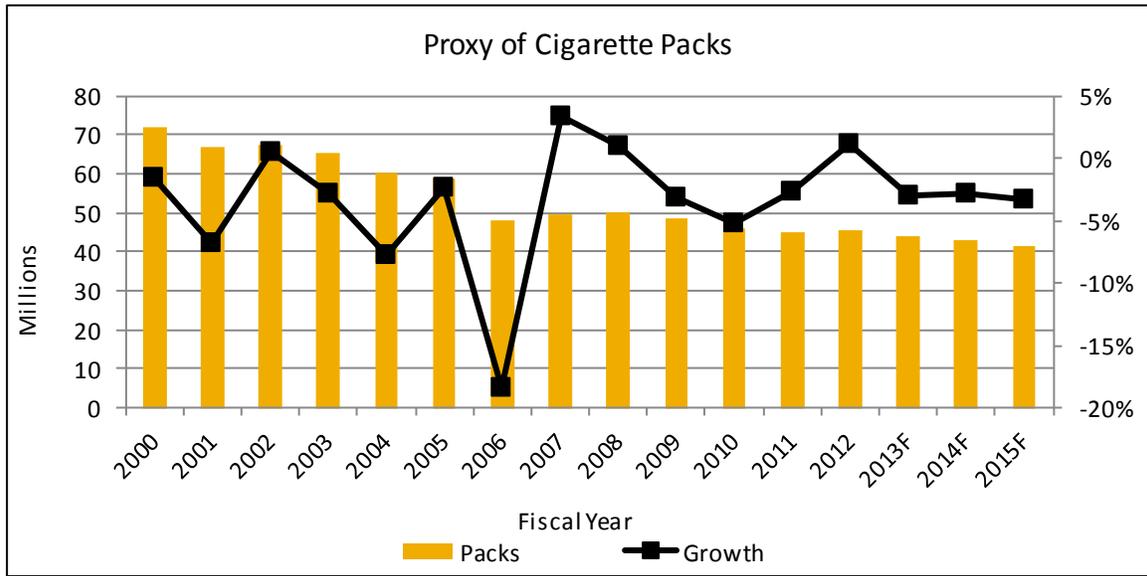
Analysis

In 1982, the consumption of cigarettes began to decrease as a result of an increased awareness of the health risks associated with smoking. Between 1982 and 2002, cigarette consumption decreased at a rate of almost 2% annually. Each of the two recent tax increases caused consumption to decrease at a greater rate for two years. These decreases forced downward shifts in Montana's consumption curve, as shown in the figure below.

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Cigarette consumption in Montana has rebounded following the initial price-related decline, although the long-term trend is still declining. As shown in the figure above, the number of packs consumed increased in FY 2007 and FY 2008 before resuming the downward trend.

Taxable cigarette pack sales are trended against tobacco spending and a tobacco price index to produce a forecast of taxable packs; forecasts for tobacco spending and the tobacco price index are provided by IHS. The current tax rate is applied to the proxy for taxable packs to determine the estimate for gross cigarette tax collections.

Adjustment and Distribution

After estimating the gross cigarette tax collections, the estimates are reduced by the discounts and credits passed on to distributors. The last step in producing the estimate for the cigarette tax is to calculate the tax distributions. First, cigarette tax revenue is reduced by tribal distributions. Five of the seven tribal governments receive cigarette tax dollars: Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow. These tribal governments adhere to Montana cigarette tax laws. The state of Montana collects the tribes' portion of the tax and quarterly distributes the collections based on a formula (per capita cigarette consumption times 150% times tribal membership times the Montana tax rate). Finally, the remaining tax revenues are distributed proportionally to the programs funded with cigarette tax revenues and to the general fund.

Forecast Methodology:



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Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	Pack	Tax Rate	GF Percent	Tribal
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Per Pack</u>	<u>Allocation</u>	<u>Millions</u>
Actual	2002	11.052	7.887	67.334	0.18	71.4%	0.254
Actual	2003	16.093	12.576	65.469	0.27	78.1%	0.286
Actual	2004	41.583	36.002	60.423	0.70	86.6%	0.396
Actual	2005	54.765	35.117	59.043	1.20	64.1%	0.842
Actual	2006	80.180	34.573	48.149	1.70	43.1%	3.522
Actual	2007	83.380	35.830	49.800	1.70	43.0%	3.935
Actual	2008	83.883	36.004	50.306	1.70	42.9%	4.051
Actual	2009	79.906	34.320	48.717	1.70	43.0%	3.807
Actual	2010	77.071	32.218	46.171	1.70	41.8%	3.682
Actual	2011	74.091	30.992	44.959	1.70	41.8%	3.495
Actual	2012	75.533	31.483	45.450	1.70	41.7%	3.818
Forecast	2013	73.473	30.680	44.090	1.70	43.9%	3.587
Forecast	2014	71.443	29.844	42.872	1.70	43.9%	3.461
Forecast	2015	69.046	28.847	41.433	1.70	43.9%	3.336

	t	Discounts	Refunds	Internet Sales	Tribal Exempt
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002				
Actual	2003				
Actual	2004	0.393	0.659		
Actual	2005	0.428	3.156		
Actual	2006	0.420	0.417	0.061	1.302
Actual	2007	0.428	0.343	0.750	1.183
Actual	2008	0.429	0.426	0.253	1.129
Actual	2009	0.409	0.310	0.058	1.409
Actual	2010	0.394	0.051	0.025	1.283
Actual	2011	0.385	0.098	0.000	1.181
Actual	2012	0.388	0.149	0.000	0.998
Forecast	2013	0.378	0.121	0.000	0.980
Forecast	2014	0.368	0.117	0.000	0.953
Forecast	2015	0.356	0.114	0.000	0.921

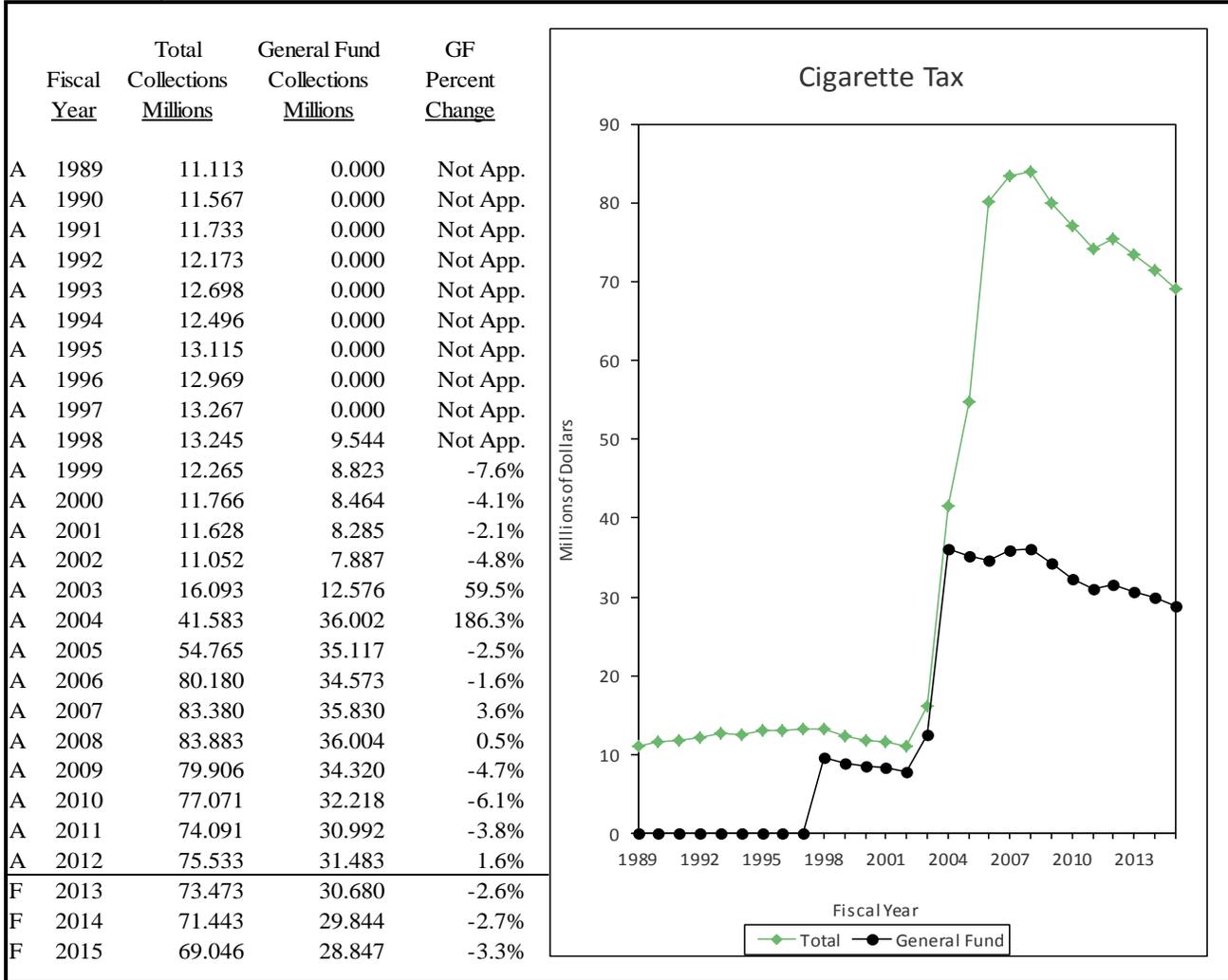
Total Tax = Packs × Tax Rate - Discounts - Refunds + Internet Sales - Tribal Exempt
 GF Tax = (Total Tax - Tribal) × GF Allocation

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Revenue Projection:



Data Source(s): SABHRS, Department of Revenue Collection Reports, U.S. Department of Commerce, MT Department of Labor and Industry, Center for Disease Control

Contacts: Department of Revenue