

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Tax

Revenue Description: The tobacco tax is an excise tax on tobacco products sold in Montana. Cigarettes are not subject to the tobacco tax. The tax is considered a direct tax on retail consumers, but is collected by the wholesaler. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to the tax.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 that doubled the tax on all tobacco products other than cigarettes and moist snuff from 12.5% to 25.0% of the wholesale price. Furthermore, moist snuff is now taxed individually, increasing the rate from the equivalent of \$0.28 an ounce to \$0.35 an ounce. Beginning January 1, 2005, the electorate approved I-149 that raised the tax on other tobacco products to 50% of the wholesale price and moist snuff to \$0.85 per ounce. Wholesalers are allowed a discount of 1.5%, to cover collection and administrative expenses. The wholesaler is entitled to a refund for tobacco products that remain unsold. I-149 adjusted distributions to allow half of the tax revenues to flow into the state general fund and half to flow into a new state special revenue fund for health and Medicaid initiatives.

The state has tobacco revenue sharing agreements with five tribes in Montana. In the agreements with the Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow tribes, the state collects the tax imposed by the tribes and distributes the revenue to the tribes on a quarterly basis. Indian consumers of tobacco on other reservations are exempt from paying the tobacco tax.

Statutory Reference:

- Tax Rate (MCA) – 16-11-111(7)
- Tax Distribution (MCA) – 16-11-114(2), 16-11-119(3)
- Date Due (MCA) – 16-11-111(8)

Applicable Tax Rate(s):

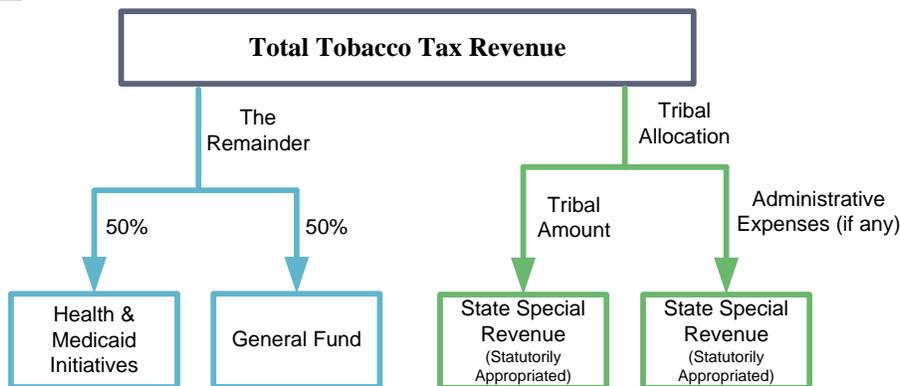
- Tobacco products - 50.0% of the wholesale price
- Moist snuff - \$0.85 per ounce

Distribution:

After amounts allocated for expenses and tribal distributions, the tax is distributed as follows:

- 50% to a state special revenue fund to be used of health and Medicaid initiatives
- 50% to the general fund

Distribution Chart:



Collection Frequency: Monthly

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% of Total General Fund Revenue:

FY 2004 – 0.26%	FY 2007 – 0.25%	FY 2010 – 0.33%
FY 2005 – 0.26%	FY 2008 – 0.24%	FY 2011 – 0.31%
FY 2006 – 0.26%	FY 2009 – 0.28%	FY 2012 – 0.31%

Revenue Estimate Methodology:

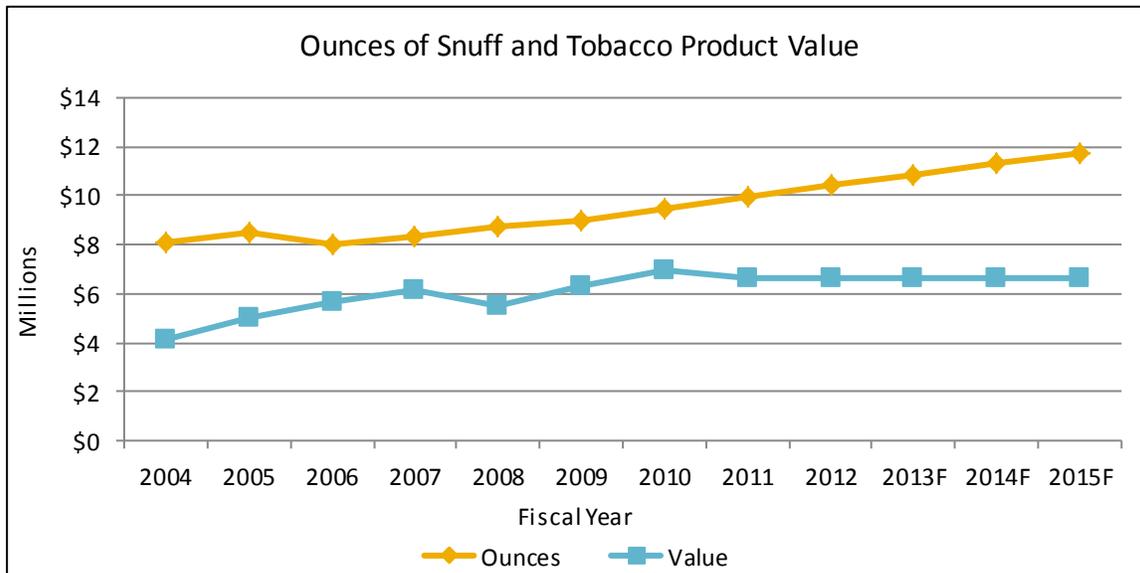
Data

Data obtained from the state accounting system (SABHRS), the Department of Revenue (DOR), and IHS is used to forecast tobacco tax revenues. The tobacco tax is made up of two taxes on the consumption of tobacco products. The tax on moist snuff (the largest component of the tax) is assessed on the number of ounces sold, and the tax on all other tobacco products (not including cigarettes) is assessed on the wholesale value of the product. DOR provides information, by distributor and month, on the number of ounces of snuff and the value of the tobacco products sold in each month and the records of tribal distributions, and the amount of discounts and credits given to tobacco distributors. Historic tax collections are available through SABHRS, and IHS supplies projections of the consumer price index (CPI) and Montana population.

To prepare the data for analysis, the monthly data is summed across all distributor purchases and over the fiscal years. For the estimate of moist snuff tax, the data is divided by the estimate of the Montana population of ages 21 or greater. The per-capita consumption estimate is used to determine the total taxes paid on moist snuff. The actual SABHRS data serves as a comparative check against the collection data provided by the DOR.

Analysis

In FY 2004, the tobacco tax assessment distinguished between moist snuff and other tobacco products. A tax rate is imposed on the ounces of snuff sold instead of on value, as other tobacco products are taxed. The figure below shows the number of ounces of moist snuff sold to wholesalers since FY 2004 and the projected sales of ounces through the forecast period, as well as the wholesaler sales and projected sales of other tobacco products (value) over the same period.



In recent years, the consumption of moist snuff has increased at a slower rate than the “value” of other tobacco products. Consequently, the estimate for the tobacco taxes is derived using unique growth factors of the proxy of each moist snuff and other tobacco products.

Consumption of moist snuff is trended against population over age 21. The forecast for the value of other tobacco products sold in Montana is obtained by applying the most recent actual growth to the base year of FY 2012 and forward. Individual tax rates are applied to the consumption/value forecasts to create a gross tax estimate.

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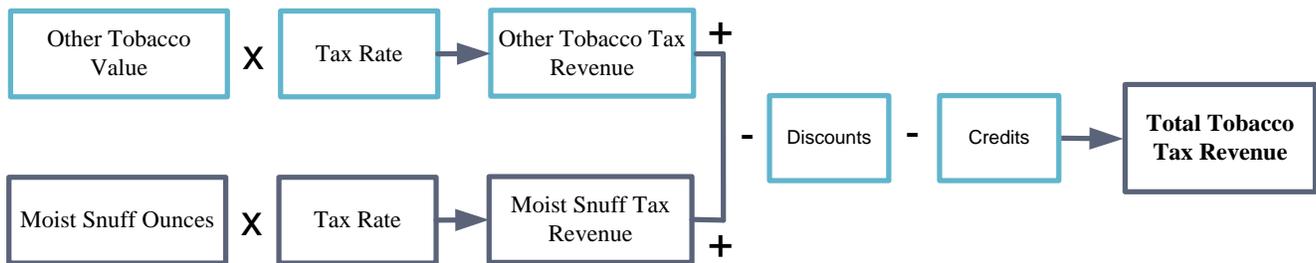
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Adjustment and Distribution

The estimates for gross collections of the tobacco taxes are adjusted for discounts and credits provided to the distributors. Finally, calculations are made for the distribution of the tobacco tax. Tobacco taxes are distributed 50% to a state special revenue fund to be used of health and Medicaid initiatives and 50% to the general fund. The general fund distribution is then reduced by tribal reimbursements. At this time, five of the seven tribal governments receive tobacco tax dollars: Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow. These tribal governments adhere to Montana tobacco tax laws. The state of Montana collects the tribes' portion of the tax and quarterly distributes the collections based on a formula (per capita tobacco products consumption times 150% times tribal membership times the Montana tax rate).

Forecast Methodology:



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Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	Tribal	Other Value	Tax Rate	Snuff Ounces	Tax Rate
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Per Ounce</u>
Actual	2002	2.229	2.183	0.046	17.828	12.5%		
Actual	2003	2.360	2.305	0.056	18.884	12.5%		
Actual	2004	3.626	3.562	0.064	4.160	25.0%	8.080	0.35
Actual	2005	6.452	4.024	0.087	5.000	37.5%	8.460	0.60
Actual	2006	9.119	4.360	0.399	5.697	50.0%	7.982	0.85
Actual	2007	9.810	4.670	0.471	6.129	50.0%	8.305	0.85
Actual	2008	9.872	4.699	0.475	5.513	50.0%	8.758	0.85
Actual	2009	10.479	4.990	0.498	6.320	50.0%	8.965	0.85
Actual	2010	11.210	5.334	0.541	6.972	50.0%	9.453	0.85
Actual	2011	11.492	5.477	0.538	6.664	50.0%	9.924	0.85
Actual	2012	12.024	5.709	0.606	6.649	50.0%	10.398	0.85
Forecast	2013	12.231	5.830	0.571	6.656	50.0%	10.829	0.85
Forecast	2014	12.605	6.015	0.576	6.656	50.0%	11.280	0.85
Forecast	2015	12.974	6.193	0.589	6.656	50.0%	11.725	0.85

	t	Discount	Credits	GF Allocation
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Percent</u>
Actual	2002			
Actual	2003			
Actual	2004	0.096	0.092	98.2%
Actual	2005	0.120	0.098	62.4%
Actual	2006	0.144	0.425	47.8%
Actual	2007	0.152	0.222	47.6%
Actual	2008	0.153	0.200	47.6%
Actual	2009	0.161	0.207	47.6%
Actual	2010	0.173	0.105	47.6%
Actual	2011	0.176	0.097	47.7%
Actual	2012	0.182	0.125	47.5%
Forecast	2013	0.187	0.115	50.0%
Forecast	2014	0.193	0.119	50.0%
Forecast	2015	0.198	0.122	50.0%

Total Tax = Snuff Ounces × Tax Rate Per Ounce + Other Value × Tax Rate Percent -

Discount - Credit

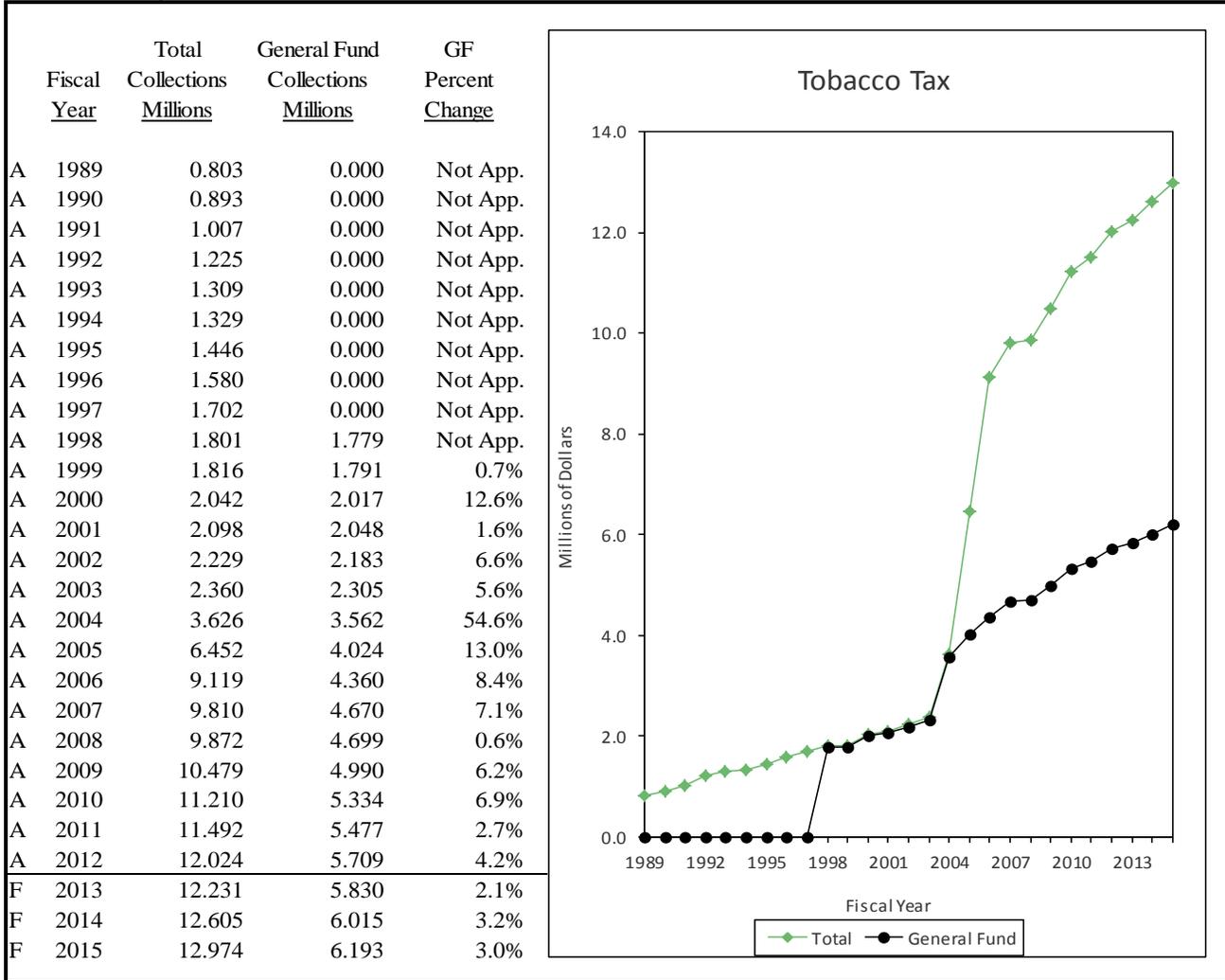
GF Tax = (Total Tax - Tribal) × GF Allocation

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Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Department of Revenue