



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0122 - Revise cigar tax based on a fixed amount per cigar (Hertz, Greg )

**Status:** As Amended in Senate Committee

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$46,000)	(\$45,000)	(\$44,000)	(\$43,000)
State Special Revenue	(\$52,000)	(\$51,000)	(\$50,000)	(\$49,000)
<b>Net Impact-General Fund Balance:</b>	(\$46,000)	(\$45,000)	(\$44,000)	(\$43,000)

**Description of fiscal impact:** SB 122, as amended, defines a premium cigar and establishes a tax on premium cigars of 50% of the wholesale price or \$0.35 per cigar, whichever is less. The current tax rate for premium cigars is 50% of the wholesale price. A tax of \$0.35 per cigar is generally always less than a tax of 50% of the wholesale price, so this bill would reduce tax revenue from premium cigars. After tribal revenue-sharing agreements, half of premium cigar tax revenue is distributed to the general fund and half is distributed to the Department of Public Health and Human Services for health and Medicaid initiatives.

### FISCAL ANALYSIS

**Assumptions:**

1. Currently, cigars are taxed under the umbrella of other tobacco products (OTP), which includes moist snuff, pipe tobacco, and all other tobacco products besides cigarettes. As a result, the Department of Revenue does not have an accurate count of premium cigars sold by Montana retailers.
2. According to data aggregator Statista, about 15.5 billion cigars were sold worldwide in calendar year 2022. Assuming the share of Montana cigar consumption is equal to its share of population, about 2,176,000 cigars, premium and non-premium, were sold by Montana retailers in calendar year 2022.

3. A 2021 report by the Alcohol and Tobacco Tax and Trade Bureau estimated that as little as 1.5% cigars sold are premium cigars, which would amount to an estimated 32,640 premium cigars sold by Montana retailers in 2022.
4. 32,640 premium cigars at \$0.35 per cigar is \$11,424 in tax revenue from cigars under this bill in FY 2022.
5. Based on available audit data, it is estimated that the average wholesale cost of a premium cigar in Montana is \$7.00. At the current tax rate of 50% of wholesale data, the current average tax per premium cigar is \$3.50. The estimated current revenue from premium cigars is \$114,240 (32,640 premium cigars times \$3.50 per cigar).
6. HJ 2 estimates the growth rate (or, in this case, the rate of decrease) of OTP revenue. These rates were applied to the \$114,240 of revenue from premium cigars under current law and the \$11,424 of estimated revenue under SB 122. The following table contains the HJ 2 growth rates, estimated revenue under current law and SB 122, and the difference. The estimated tax revenue per cigar under current law is \$3.50 versus \$0.35 under SB 122.

FY	Growth Rate	Cigar Tax Current Law	Cigar Tax SB 122	Difference
2023	-2.30%	\$111,612	\$11,161	(\$100,451)
2024	-1.60%	\$109,827	\$10,983	(\$98,844)
2025	-2.10%	\$107,520	\$10,752	(\$96,768)
2026	-2.50%	\$104,832	\$10,483	(\$94,349)
2027	-2.10%	\$102,631	\$10,263	(\$92,368)

7. After tribal revenue-sharing agreements of about 6%, 50% of the remaining revenue is distributed to the general fund and 50% is distributed to the Department of Public Health and Human Services for health and Medicaid initiatives.
8. Costs associated with this bill are expected to be minimal and will be absorbed by the department.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$46,000)	(\$45,000)	(\$44,000)	(\$43,000)
State Special Revenue (02)	(\$52,000)	(\$51,000)	(\$50,000)	(\$49,000)
<b>TOTAL Revenues</b>	<u>(\$98,000)</u>	<u>(\$96,000)</u>	<u>(\$94,000)</u>	<u>(\$92,000)</u>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$46,000)	(\$45,000)	(\$44,000)	(\$43,000)
State Special Revenue (02)	(\$52,000)	(\$51,000)	(\$50,000)	(\$49,000)

NO SPONSOR SIGNATURE 3/28/23 [Signature] 3-28-23  
 Sponsor's Initials Date Budget Director's Initials Date