MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 5, 1985

The fortieth meeting of the Senate Taxation Committee was called to order at 8:02 am by Chairman Thomas E. Towe in Room 413-415 of the Capitol Building.

CONSIDERATION OF SB 464: Senator Elmer Severson, Senate District 32, was recognized as chief sponsor of the committee bill. He explained that the change in state law had occured when the federal law changed a disability exclusion to a tax credit. Montana piggybacks on the exclusion, but not on the credit and thus, for income earned in 1984, the state was taxing this income in full. This bill would return to the status quo the taxing of disabled persons.

PROPONENTS

Ms. Diane Ellis, a Hamilton accountant who called the problem to the attention of Senator Severson originally, said that the exclusion was available up to a certain level and begins to phase out when the income reaches $13,000. She said it had formerly been combined with tax credit for the elderly. She said of the 300 tax returns she has done, it affects only about four, but that it affects them significantly. She said it raised taxes from the $15.00 to the $300 range. She said the Legislature never had the intent to tax this income.

Mr. Ken Morrison, representing the Department of Revenue, said they support the bill and had already provided the committee with examples of its effects.

OPPONENTS

None were heard.

Questions from the committee were called for.

Senator Lybeck was reassured that the effective date would allow people filing returns for 1984 to claim the exclusion as it had always been claimed.

Senator McCallum noted that the fiscal note showed a $38,000 reduction annually. Senator Severson said there was no effect fiscally as the dollars had not been counted in revenue estimates.

Senator Towe asked if the wording in the bill was taken from the old federal law. Mr. Morrison answered that it was different because the language had been cut down, but the procedure was the same. Senator Towe then clarified that those making less than $15,000 annually could exclude $100 weekly from that for taxation purposes.

Senator Severson closed and moved the bill.

MOTION: Senator Severson moved that SB 464 do pass. He said that it should be acted on as quickly as possible.

The motion carried unanimously.

CONSIDERATION OF SB 161 and SB 442: Senator Bob Brown from Senate District 2 was recognized as chief sponsor of the bill. SB 442 would add a five cent tax on a pack of cigarettes, bringing a tax shift that would reduce property taxes for use by the teacher's retirement fund as outlined in SB 161.

Senator Brown said that Montana is about in the middle of the states on taxation of cigarettes. He said the revenue generated would be used to reduce property taxes paid to the teacher's retirement levy. He explained the number of students and the amount of money in relation to the distribution. He said it has more to do with property tax relief than with education. He gave the committee Exhibit 1 which demonstrates how it affects all the counties.

PROPONENTS

Mr. Chip Erdmann of the Montana School Board Association said that SB 161 could be passed even without the funding mechanism of SB 442. He said this would equalize the retirement levy on a county basis.

Mr. Bill Anderson representing the Superintendent and the Office of Public Instruction. He said that seventy percent of every education dollar is coming from property taxes at the local level and that a move to start equalizing that with state dollars should happen. He said without equalizing that burden there is no solid funding for schools in the future.

Ms. Terry Minnow of the Montana Federation of Teachers supported the bill based on further equalization of school funding.

Mr. Phil Campbell of the Montana Education Association said that they concurred with Mr. Erdmann's comments and felt the mechanism ought to be in place even if the funding wasn't.

Mr. Earl Lamb, Assistant Superintendent for Business of the Great Falls Public Schools submitted Exhibit 2 and supported the bills.

OPPONENTS

Mr. Tom Maddox of the Montana Association of Tobacco and Candy Distributors opposed SB 442. He said it was a regressive sales tax. He submitted his testimony in writing (Exhibit 3).

Mr. Jerome Anderson, representing the Tobacco Institute, submitted Exhibit 4 which included information on the cigarette excise tax, federal actions in this area, and statements from the chairs of the Senate Finance and House Taxation committees of the U.S. Congress. He said this is the first in a series of bills dealing with the cigarette taxation issue. He said there is a point at which the producers and consumers of cigarettes can no longer afford to pay. He said it does not equalize taxes but calls on 35 percent of adults to pay all the tax for this program.

He painted a federal picture in which President Reagan is trying to free cigarette tax money for the state, but unable to balance the budget, and will therefore be forced by congress to continue the federal cigarette excise tax at its present level. He said the dollars for the teacher's retirement should be collected locally or appropriated from the general fund. He said any particular group singled out to pay a tax would object. He claimed that decreased sales would result so the prospective revenue would not be as great as claimed.

Mr. Tucker Hill representing the Phillip Morris Tobacco Company said that a higher tax affects his company's ability to market cigarettes in the state. He said there is a conflict with SB 249 passed previously by the committee which must be addressed if this bill is acted on. He said that cigarettes can be considered a luxury only to those who do not smoke.

Questions from the committee were called for.

Senator Towe noted that if the best tax is one paid by someone else, then the bill is in good hands in a committee of nonsmokers.

Senator Brown in response to a question by Senator Hager said that as the federal government would back off 8 cents of their excise tax the increase in this bill would only be 5 cents and that the 8 cent increase proposed by the Governor would be off set.

Mr. Anderson said that President Reagan will let the 8 cent tax ride in order to keep his budget balanced.

Senator Neuman asked about the regressive nature of the tax and was told that figures on lower income smokers were in the material presented to the committee.

Mr. Anderson noted that Mr. Ray Dennison of the national AFL-CIO had been testifying against a cigarette excise tax in the U.S. Congress. He said the excise tax was a burden on the middle and low income smoker. Senator Towe said that would add incentive to stop smoking. Mr. Anderson said that morality could not be legislated. Senator Towe said it was a health issue, not a morality issue.

Senator Eck asked Mr. Anderson if he would be inclined to support the bill if the revenue were used for health related costs.

Mr. Anderson provided the committee with information regarding the decrease in cigarette sales saying that in 1974 Montanans smoked 127 packs annually per capita and that in 1984 they smoked 110 packs per capita. He said the high was in 1982 when 97.1 million packs were smoked and now that figure was 90.6 million.

In response to a question from Senator Hager, Mr. Anderson said that 12.5 percent of the price was the tax on other tobacco products.

In closing Senator Brown presented the committee with Exhibit 5 which is a rate of tables of taxation on cigarettes by state. He said that both bills are needed. He said no one likes to have their own industry taxed, but that cigarettes are not argueably a necessity. He said the committee should look at the financial situation and pass both bills now. He said the bill would take from cigarette smokers and give to property taxpayers and that if there was a decrease in cigarette consumption it was attributable to health education and not to cost.

CONSIDERATION OF SB 431: Senator Dorothy Eck was recognized as chief sponsor of the committee bill. She said it had started as Senator Aklestad's bill which had been amended to deal with problems in greenbelt laws and finally arrived before the committee in this version. She said the options indicated in the fiscal note were more telling than the bill itself. She said the market value of a house cannot be separated from the value of the farm or ranch and that is the rationale for lowering taxation on the intrinsically bona fide agricultural residence.

Looking at the fiscal note she said it was significant to see that the bill would help those counties severly impacted by subdivisions.

She presented the committee with amendments (Exhibit 6) which would tighten the bill even further. She said it was a good bill whether or not the committee could go all the way with the amendments.

Production levels in the bill are based on a 10-acre piece of land, she said.

PROPONENTS

Mr. Gordon Morris of the Montana Association of Counties said that they endorse SB 431. He said they recommended a strong construction of the greenbelt law and would oppose any bill that reduces the taxable valuation of the counties. He said the bill would help schools too as 60 cents of every property tax dollar levied went to schools.

Mr. Phil Campbell of the Montana Education Association supported the bill.

Ms. Jo Brunner representing the Cattlemen, Cattle Feeders and the Grange said they support revision of the greenbelt.

Mr. Gregg Groepper of the Property Assessment Division of the Department of Revenue said the bill is a vehicle to solve some of the problems with SB 234 as well. He said the fiscal note was written with options to allow the committee to discuss different versions. He said that the Department was looking for greenbelt legislation that would be administratively good with a manageable definition.

Mr. Rick Bellidue of the Montana Appraisal Association said they liked option four the best. He said a lease option should be stricken.

OPPONENTS

None were heard.

Senator Tom Hager rose to speak on the bill. He said the original purpose was to allow farmers to keep fields next to the city and avoid taxation at increased rates. He said that changing carefully drafted language concerned him.

Questions from the committee were called for.

Senator Severson said the fiscal note surprised him. Mr. Groepper explained that if the appraiser says there is no agricultural use then an owner has to prove greenbelt qualification. He said if the owner disagrees with the Department determination then STAB decides. Mr. Groepper said that three area managers helped to prepare this fiscal note. They were concerned that fictitious lease arrangements would be a problem if the first option were used.

Senator Hirsch suggested that a certain level of livestock and/or farm machinery tax could be a criteria for defining a bona fide agriculturist. He said it was a question of how tough the committee wanted to be in construction of the green belt law.

Senator McCallum said that an Attorney General's opinion had said that if land is used the same then the taxation of that land should stay the same. Mr. Groepper said that was current policy.

Senator Lybeck asked if Senator Hirsch's suggestion would be workable. Mr. Groepper said that if that were combined with contiguous ownership provisions and perhaps a gross income test for entities like orchards, then it could work. He said they would look at options three and four, but not one.

Senator Eck asked Ms. Brunner what her organizations were looking at tightening. Ms. Brunner said if production is not sold, then it is not an agricultural operation. She noted that Senator Hirsch's suggestion would not work if taxation were eliminated on livestock and machinery.

Senator Eck closed saying that the bill belongs to the entire committee. She said that committee understandings are growing and that the issue of equity and fairness needs to be addressed. She said the cost of rural subdivisions should be borne by the people living in them.

The meeting was adjourned at 10 am.

Chairman

ROLL CALL

SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date March 5, 1985, 8:02 am

Location -- Room 413-415

- -

Name	Present	Absent	Excused
Senator Brown	✓		
Senator Eck	✓		
Senator Goodover	✓		
Senator Hager	✓		
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek	8:10 am		
Senator McCallum	✓		
Senator Neuman	✓		
Senator Severson	✓		
Senator Towe	✓		

DATE 3-6

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppose
Diane K. Ellis	—	464	X	
Jerome Anderson	Tobacco Institute	442		✓
Thomas W Maddox	MT. ASSN. of Tobacco-CANDY Distributors	S442		✓
TUCKER Hill	Philip Morris USA	S442		✓
Chip Erdmann	MT School Bd Assoc	161 442	X	
James Madison	Department of Revenue	442		
G. Morris	MACo	442 431	✓	
Phil Campbell	MEA	161 442	X	
Bill Anderson	OPI	161	✓	
[illegible]	Great Falls Pub Sch	161	✓	
Robert Johnson	Teachers' Retirement	161	✓	
Terry Minow	MT Fed Teachers	161 442	✓	
Ida Beebe				
John K Beebe				
Carolyn Manley				
Judith Brenner				
Elaine Baum				
Elaine [illegible]				

(Please leave prepared statement with Secretary)

(This sheet to be used by those testifying on a bill.)

NAME: Diane K Ellis DATE: 3-6-85

ADDRESS: 242 Sheafman Ck Rd, Victor, MT 59875

PHONE: 363-4020 or 961-3997

REPRESENTING WHOM? —

APPEARING ON WHICH PROPOSAL: SB 464 Exclusion from tax of $70/wk disability income

DO YOU: SUPPORT? X AMEND? ______ OPPOSE? ______

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Jerome Anderson DATE: 3/5/85

ADDRESS: P.O. Drawer 849 - Billings, MT. 59103-0849

PHONE: 406-248-2611 (Billings) or 406-442-2048 - Helena

REPRESENTING WHOM? Tobacco Institute

APPEARING ON WHICH PROPOSAL: HB 442

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? ✓

COMMENT: Distributed to Committee

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

(This sheet to be used by those testifying on a bill.)

NAME: Thomas W. MADDOX DATE: 3/5/85

ADDRESS: P.O. Box 123

PHONE: 442-1582

REPRESENTING WHOM? MONTANA ASSOCIATION of Tobacco AND CANDY DISTRIBUTURS

APPEARING ON WHICH PROPOSAL: SB 442

DO YOU: SUPPORT? ________ AMEND? ________ OPPOSE? X

COMMENT: Position statement distributed to the Committee.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SB 442

84-85 School yr

Form 4256 Counties

State Publishing Co.
Helena, Montana

	Taxable Valuation	ANB	Retirement Mills	Dollars to Co.	mill reduction
Beaverhead	15155776	1554	3082	45208	- 3.0
Big Horn	127,742902	2323	699	67580	- 0.5
Blaine	34,327258	1531	1757	44539	- 1.3
Broadwater	10,943747	652	1348	18968	- 1.7
Carbon	28,234173	1647	1742	47914	- 1.7
Carter	6823412	287	1164	8349	- 1.2
Cascade	86,580469	13767	4585	400505	- 4.6
Chouteau	30,210178	1187	1392	34532	- 1.1
Custer	18,274984	2074	3603	60336	- 3.3
Daniels	8,170427	549	2676	15971	- 2.0
Dawson	29,365423	2278	2102	66271	- 2.3
Deer Lodge	12,460024	2079	5628	60482	- 4.9
Fallon	115,772404	787	322	22895	- 0.2
Fergus	21,875043	2152	3633	62605	- 2.9
Flathead	85,197654	11202	3528	325885	- 3.8
Gallatin	60,058608	6887	3243	200354	- 3.3
Garfield	6689940	347	1903	10095	- 1.5
Glacier	45,787324	2823	2645	82126	- 1.8
Golden Valley	5,239576	199	1776	5789	- 1.1
Granite	5,562353	559	2122	16262	- 2.9
Hill	45,368815	3146	2367	91522	- 2.0
Jefferson	15,386711	1606	2442	46721	- 3.0
Judith Basin	9,108876	488	2027	14197	- 1.6
Lake	26,443446	4108	3903	119509	- 4.5
Lewis and Clark	60,102034	8695	3923	252952	- 4.2
Liberty	20,199103	478	749	13906	- 0.7
Lincoln	33,310639	3995	2773	116231	- 3.5
Madison	16,180061	1003	2035	29179	- 1.8
McCone	10,781673	545	1331	15855	- 1.5
Meagher	7,954134	386	1667	11229	- 1.4
Mineral	4,473586	857	5599	24932	- 5.5
Missoula	121,268468	12371	3702	359893	- 3.0
Musselshell	27,277779	943	1036	27433	- 1.0
Park	18,361328	2401	3926	69849	- 3.8
Petroleum	3,183454	126	1834	3666	- 1.2
Phillips	39,347917	1097	963	31914	- 0.8
Pondera	25185402	1380	2295	40147	- 1.6
Powder River	67,512500	519	224	15099	- 0.2
Powell	13,801029	1176	2041	34212	- 2.5
Prairie	6,497419	378	1474	10997	- 1.7
Ravalli	23,896228	4924	4411	143247	- 6.0
Richland	124,659036	2820	660	82039	- 0.7
Roosevelt	76,933437	2627	1295	76424	- 1.0
Rosebud	244,364813	3026	512	88031	- 0.4
Sanders	20,933587	1911	2222	55594	- 2.7
Sheridan	87,866888	1036	422	30139	- 0.3
Silver Bow	44,566285	6371	4870	185343	- 4.2
Stillwater	14,977996	1243	2744	36161	- 2.4
Sweet Grass	6,706983	621	2914	18066	- 2.7
Teton	18,641622	1222	1988	35550	- 1.9
Toole	48,027546	1002	786	29150	- 0.6
Treasure	4,587439	207	1707	6022	- 1.3
Valley	43,777973	1987	1679	57805	- 1.3
Wheatland	7,089822	426	1855	12393	- 1.7
Wibaux	28,176934	312	251	9077	- 0.3
Yellowstone	192,832309	20929	2155	608860	- 3.2
	2,314254952	151246	125732		- 1.9

EXHIBIT 1 -- SB 161, SB 442
March 5, 1985

GREAT FALLS PUBLIC SCHOOLS 1984-85

DISTRICT AND COUNTY LEVIES - BY VARIOUS BUDGETS (CONTINUED)

ELEMENTARY DISTRICT NO. 1 AND HIGH SCHOOL DISTRICT A LEVIES

Exhibit 2 -- SB 161, SB 442
March 5, 1985

	SUB-TOTAL DISTRICT LEVIES	25 MILL ELEMENTARY COUNTY LEVY	15 MILL HIGH SCHOOL COUNTY LEVY	TEACHER'S RETIREMENT ELEMENTARY COUNTY LEVY	TEACHERS' RETIREMENT HIGH SCHOOL COUNTY LEVY	TRANSPORTATION HIGH SCHOOL COUNTY LEVY	COUNTY LEVY FOR STATE HIGH SCHOOL DEFICIENCY	COUNTY LEVY FOR STATE ELEMENTARY DEFICIENCY	POST-SECONDARY VOC. TECH. CENTER - COUNTY	SUB-TOTAL COUNTY LEVIES	GRAND TOTAL DISTRICT AND COUNTY
1970	83.16	25.00	15.00		2.06	.55	4.10	9.11	1.00	56.82	139.98
1971	87.57	25.00	15.00		2.70	.52	2.51	5.14	1.00	51.87	139.44
1972	85.30	25.00	15.00		2.72	.56	3.02	5.84	1.00	53.14	138.44
1973	61.92	25.00	15.00	13.16	6.72	.61	-	-	1.00	61.49	123.41
1974	79.34	25.00	15.00	12.36	6.63	.74	-	-	1.00	60.73	140.07
1975	97.72	25.00	15.00	15.48	8.69	1.25	-	-	1.00	66.42	164.14
1976	96.75	25.00	15.00	15.81	8.73	1.09	-	-	1.00	66.63	163.38
1977	102.19	25.00	15.00	15.23	8.55	1.08	-	-	1.00	65.86	168.05
1978	93.63	25.00	15.00	16.56	10.66	1.51	-	-	1.00	69.73	163.36
1979	89.23	25.00	15.00	18.48	10.78	1.86	-	-	1.25	72.37	161.60
1980	105.29	25.00	15.00	19.65	12.13	1.98	-	-	1.50	75.26	180.55
1981	127.23	25.00	15.00	23.47	13.82	2.34	-	-	1.50	81.13	208.36
1982	118.51	25.00	15.00	23.91	14.01	2.99	-	-	1.50	82.41	200.92
1983	113.88	28.00	17.00	27.36	16.01	2.77	-	-	1.50	92.64	206.52
1984	179.86	28.00	17.00	29.37	16.48	2.61	-	-	1.50	94.96	274.82

Nancy

Comments on Montana Senate Bill 442 by Tom Maddox, executive director of the Montana Association of Tobacco and Candy Distributors, P.O.Box 123, Helena MT 59624,

Senate Bill 442 is a proposed increase of sales tax on cigarettes. Montanans have long opposed and successfully rejected general sales taxes for what they are --- the most regressive kind of taxation. Sales taxes hit hardest -- hurt the most -- all the people who are least able to cope with living financially.

This bill is creeping sales tax. It began as a 2 cents tax. SB442 would impose 50 cents more sales tax on a carton of cigarettes. Consideration should be on a carton basis. The state revenue department uses the carton unit in confirming or computing sales tax units. The supreme court opinion on cigarette law uses carton units in confirming specific cost components of cigarettes. Statistical tracking of sales shows about half of cigarette volume is purchased by the carton. SB442 therefore would impose a sales tax of 50 cents a carton.

This bill (on page 3, lines 23-25; page 4, lines 1-2) proposes the tax potential would be $2.90 a carton. This means that in Montana any one could buy cigarettes for $2.90 less from the many Indian stores on our heavily trafficked highways. Ask your revenue department how fast losses of state tax are escalating as more and more people buy cigarettes without state tax. This means passage of SB442 would further decrease sales of more heavily taxed cigarettes. Higher Montana sales taxes are driving more buyers to buy from three of four lower taxing states around us, and the Indians.

Montana cigarette sales have been going down -- 7% to 12% (on a calendar or fiscal basis) -- since the tax was increased to $3.20 a carton just two years ago. (Federal $1.60 a carton, and state $1.60 a carton, all of which must be prepaid by Montana wholesalers, before they sell or collect.)

We should carefully evaluate the funding concept of SB442. It seems strange. As the full perception of what is being proposed here grows --- as the public becomes aware of this strange attempt to twist public policy --- parents, the rank and file of teachers, of our educational community, will perceive such legislative thinking as strange. Many will be shocked. Why?

On every hand, we see teachers, and parents, and others, condemning smoking. We have the Montana Clean Indoor Air Act. This is smoking education. We have a trend, and it is reducing numbers of cigarette smokers, and the amount of smoking cigarettes.

SB442 therefore is a strange twist on public policy. It proposes to that a laudable, longterm effort to better compensate our teachers be funded in part on what appears to be a declining revenue source. It proposes higher tax for declining sales of cigarettes, to channel to teachers mone from the product they are condemning.

--page one: see page two--

Exhibit 3 -- SB 442, SB 161
March 5, 1985

Can't you just see parents, teachers, and our education leaders shking their heads in wonderment at such strange thinking among our legislative policy makers?

We believe the majority -- the responsible, logical leaders --- who shape our public policy will kill SB442 without delay.

Few, if anyone, may be against stabilizing pensions for our teachers (as proposed in SB161). This worthy effort is a responsibility for all our citizens --- for all to share in funding -- and be proud to do this. It is wrong to impose such burden on just a minority of cigarette taxpayers.

Let's not enact law proposed in SB442, and be ashamed of such action. Let's find other sources to fund a worthy cause, and be proud of the general concept -- more in harmony with the roles we develop to guide Montana's children.

(For a more in-depth evaluation of the subject, an additional six pages may be studied in the attached or accompanying material.)

Thank you.

For publication as desired—all or any portion.

From the Montana Association of Tobacco and Candy Distributors (See further at end)

HELENA MT — Did you hear the one about the cigarette smoker who suffered a nightmare? Well, he went to his neighborhood store and asked for a carton of his latest favorite cigarettes. The clerk said, "That's $6.21 for the cigarettes, sir, and, um-m-m, let's see, and another $7.08 for the state-federal sales taxes." The smoker cried, "Oh, no, Can't be." The clerk was firm, "Yes, it is—tax to help reduce the federal debt; tax to balance Montana's state budget; tax to aid public schools, and for the teachers' pensions, tax to service the debt on state buildings, and there's more tax on smokeless tobacco to fix our city streets. ..."

The smoker groans, opens the carton and extracts a cigarette.

"Oh, sir. You can't smoke here," the clerk admonishes. "The legislature has outlawed smoking in public places."

Shocked, the smokeless smoker awakes at 4 a.m., to the sounds of his own screaming. Finally, he dozes off again, until the sound of his telephone ringing brings him to wakefullness. "Hello," he answers.

"Good morning, sir," the caller says. "I'm calling to invite you to attend our new state-sponsored clinic on how to stop smoking. It doesn't cost you anything. The smokers' tax pays for it."

Does all that sound a little wierd to you? If it does, then you're not aware of what all is being proposed to those legislators we elected to congress and to the legislature in Helena.

The $7.08 state-federal tax on a carton of cigarettes is the total tax being proposed in the smoker's worst real life scenario. At the federal level, a $4 a carton federal tax is proposed; another proposal is for a mere 100 per cent increase from today's $1.60 U. S. tax a carton. Then at least five bills in the

Based on the latest minimum costs computed by the Montana Department of Revenue, regular and king size cigarettes amon g major brands cost $9. 12 a carton. Of this Montana smokers today pay 35. 1 per cent of this cost in state-federal tax on the sale.

Congress increased the federal tax 100 per cent in 1983 to $1. 60 a carton. Then the Montana legislature increased the state sales tax 33 per cent to $1. 60, to make the total carton tax $3. 20. (The carton size is used here because the state department calculates tax units on a carton basis. The Tobacco Institute reports about half of cigarette sales are by the carton of 10 packs of cigarettes.)

Governor Ted Schwinden has asked for the state tax to be increased 100 per cent within two years, to $2. 40 a carton in HB45. His bill beat another bill to the Legislative Council (HB120), which also asks for $2. 40 state tax a carton, for research into certain diseases. Senate Bill 442 states that even if HB45 is enacted, another 50 cents a carton is wanted, to help fund teachers' pensions. Whatever tax prevails, HB833 wants a cut of one per cent to fund educational programs on how to stop smoking, to be supervised by the state superintendent of public instruction.

State law defines a pack of cigarettes as containing 20 cigarettes. Now major manufacturers have produced a pack containing 25 cigarettes. So this has generated SB249 to tax each cigarette in excess of 20 in a pack at the rate of 1/20th of the base 20-pack tax. Thus, if the state tax is $2. 90 a carton of 20, the state tax would be $3. 04-1/2 for a pack of 25.

Montana started taxing cigarettes in 1957, and has increased the tax 700 per cent since then — before the 1985 proposals. Our record keepers report that cigarette smokers have paid the state in taxes $256 million through 1984.

(More on page 3)

Smoker for smoker, they made their finest contribution to build state buildings in fiscal 1982. By then the state-federal tax rates had prevailed for several years, at $2 a carton ($1.20 for the state, 80¢ for the federal tax). They paid tax of $11,649,438.

Some might think if the government doubled such tax, it would double revenue, say to more than $23 million for the next fiscal year. Budget Director David Hunter's fiscal note on HB45 tells the legislature he expects doubling from 1982 should gross the state only about $20 million. What happens to the missing $3 million?

The Tobacco Institute of Washington, D. C., supports calculations showing a "loss" would ensue. Not only in tax, but the TI declares there would be further losses in businesses.

The institute adds:

"For Montana, a specific state econometric demand model indicates a possible sales decline of 3.76 per cent for every 8 per cent increase in the tax rate. Therefore, it could be expected that an addition of an eight cent excise tax increase to the current average retail price will lead to a decline in legitimate fiscal year '86 cigarette sales in Montana of about 3.41 million packs.

"This decline would probably consist of an actual cutback, combined with increased illegal purchases and interstate smuggling. As a result, legitimate wholesalers and retailers would experience significant revenue losses."

The Montana Association of Tobacco and Candy Distributors states that, "As sales of state-taxed cigarettes decline, there has been a substantial increase in cigarette purchases without the state tax from Indian reservation-based retail outlets, called 'smokeshops', on heavily trafficked highways. The Department of Revenue reports millions of dollars in losses, and rapidly escalating with the latest state cigarette tax increase."

(More on page 4)

The institute report goes on, "In other states where high cigarette taxes exist, the criminal element has become involved. If Montana were to raise its tax on cigarettes, the bootlegging problem will grow in proportion to the tax increase."

There is a statistical indicator to trends in purchases of cigarettes from legitimate or state-taxed cigarettes to purchases from stores which do not pay state taxes. A markedly lower per capita consumption is reflected in states with growing federal reservation sales, or with substantial smuggling from other states by individuals or organized crime. On the other hand, states with substantial cigarette sales for out-of-state consumption exhibit relatively higher per capita consumption figures.

A new Tobacco Institute report states, "Data for 1984 show that overall per capita consumption in Montana was 96.9 packs. The U.S. unweighted average per capita was 122.7 packs.

"Montana now is at a 4 cents a pack tax disadvantage with three or four surrounding states. Montana also recorded a per capita sales disadvantage with all four of its neighboring states. This comparison implies some potential smuggling of cigarettes into Montana from states with lower tax rates."

The institute reports that cigarette taxes provided 2.5 per cent of the state's 1983 total tax revenue and an impressive 12.2 per cent of the state's total sales and gross receipts tax revenue. Cigarette taxes generate more revenue for Montana than taxes on beer, liquor or wine, or utilities. It credits this data to the U.S. Bureau of the Census and the Montana Department of Revenue.

(More on page 5)

The nonprofit TI sees a direct impact on the state's economy. TI explains:

"Higher cigarette taxes affect revenue and work weeks in private sectors, both directly and indirectly involved in the tobacco industry within Montana. Most of these effects will be in the form of revenue losses to wholesalers and retailers.

"Higher cigarette taxes and the resulting decline in the purchase of tax-paid cigarettes will also reduce state revenue from other sources, such as corporate income tax, and individual income tax. For example, cigarettes are a traffic-builder for the state's thousands of retail establishments which sell cigarettes. When people reduce purchase of cigarettes, or turn to bootlegged cigarettes, the revenue derived from the sales and profits of other products suffers as in-store traffic declines."

The Tobacco Institute contends, "The Montana cigarette tax is already a regressive and inequitable tax. The cigarette tax discriminates against the estimated 200,000 residents of the state who smoke, but the tax falls most heavily on those least able to afford it.

"Because the percentage of income devoted to buying cigarettes falls as income rises, Montana cigarette taxes are already levied at higher effective rates on the disadvantaged and those on fixed incomes than on the more affluent. Any increase in the current tax rate will add to the tax burden on lower income groups and will contribute further to the overall regressivity of the state tax structure. An increase of 8 cents a pack would mean a 100 per cent increase in the tax in two years. . . .

"More than 21 per cent of Montana families have an effective buying income of less than $10,000 a year. All told, nearly 36 per cent have incomes less than $15,000. It is these families who will suffer most from the increase.

(More on page 6)

A family with an income below the poverty level with two average smokers pays almost five times as much of its income for the pleasure of smoking as does the more affluent family making $25,000 a year.

"In addition, about 11 per cent of Montana residents are aged 65 or older. For these plus-65 persons, many of whom are living on a fixed income, any increase in the cigarette tax rate could threaten this affordable pleasure. A household in Montana with two average smokers pays $350 in state-federal taxes on cigarettes a year. If the state were to increase its tax another 8 cents — a 50 per cent increase, that tax figure would soar to $438 annually."

Some smokers may quit cigarettes, and turn to smokeless tobacco.

Some legislators have already thought of this. HB838 would increase the state tax on smokeless tobacco 100 per cent.to This is earmarked: 25 per cent to build and repair city streets, 25 per cent for state aid to schools, and 50 per cent to be added to the service cost of bonded debt on construction of state building.

Finally, there's HB183 which would bar smoking in public places or provide a mandatory nonsmoking area. This squeaked through the House, 52 - 48, and now is in the Senate.

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The foregoing is submitted by Tom Maddox, former Associated Press bureau chief for Montana, and now executive director for the Montana Association of Tobacco and Candy Distributors, a nonprofit group of local independent, service wholesale distributors; P. O. Box 1 2 3, Helena MT 59624. Telephone (406) 442-1582.

CIGARETTE EXCISE TAX FACTSHEET

MONTANA

JANUARY 1985

Exhibit 4 -- SB 442, SB 161
March 5, 1985

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POTENTIAL TAX REVENUES AND THE STATE OF MONTANA

In FY 1984, Montana collected $21.98 in cigarette excise taxes for every person aged 18 or over in the state. This excise tax revenue of $13.1 million represented the sale of 90.6 million packs. Between FY 83 and FY 84, the state excise was increased 33% in Montana, from 12 to 16¢. Since the tax increase, sales from this significant tax resource have been reduced. A further increase of 8¢ would mean a 100% increase in the tax rate in less than two years, and would be an unconscionable action against the state's smokers.

An increase of 8¢ in the state cigarette tax will erode the tax base still further by reducing sales. For Montana, a specific state econometric demand model indicates a possible sales decline of 3.76% for every 8% increase in the tax rate. Therefore, it can be expected that an addition of an 8¢ excise tax increase to the current average retail price will lead to a decline in legitimate FY 1986 cigarette sales in Montana of about 3.41 million packs. This decline will probably consist of an actual cutback combined with increased illegal purchases and interstate smuggling. As a result, legitimate wholesalers and retailers will experience significant revenue losses.

MONTANA AND THE CIGARETTE TAX

Montana has been taxing cigarettes since 1947. Since 1950, the tax rate has climbed from 2¢ to 16¢ a pack. To date, this tax has generated more than $256 million in gross revenues for the state.

In the fiscal year ending June 30, 1984, gross revenue from the cigarette tax in the state amounted to more than $13 million, an increase in annual revenue of more than 700% from 1950.

EARMARKING OF TOBACCO TAXES

To increase a tax specifically to fund a particular program artifically patches a funding problem from one place in the budget to another without solving it. Tobacco excise taxes under the present system contributed $13 million in gross revenue in FY 1984 in Montana. To increase the tax and earmark the unknown additional revenue to fund a specific program would add further rigidity to the state fiscal system. This could eventually restrict the ability of government to meet pressing operational needs outside the designated field.

Earmarking of revenue removes from the legislature one more segment of control over state budgeting and expenditures. The further the principle of earmarking revenue sources for specific programs is carried, the less government can do to achieve fiscal discipline and establish rational budgetary priorities.

Earmarking of taxes, for whatever purpose, has become an increasingly questionable practice. Clearly, a system of taxation where every program will have to raise its own support presents numerous concerns. Such a system would necessitate the creation of another level of government bureacracy to handle the administrative, management and accounting functions that would be required.

Experience has shown that such bureaucracies have a strong tendency to perpetuate themselves indefinitely without regard to their usefulness. The same holds true for those programs being earmarked. When not competing with other interests for funding, such programs often escape public and legislative scrutiny. The continuance of unnecessary programs will likely entail increased costs that will be passed on to consumers through additional tax levies.

Dedicating funds is not only questionable as a matter of government fiscal policy; almost invariably it represents an additional cost to be borne by taxpayers. With regard to cigarette excise taxes, the cost is borne disproportionately by lower income individuals.

In these days of budget crunches, it makes more sense to not start unnecessary new programs and to cut back on outdated programs. State government is often perceived by the public as too big already. In fact, a recent survey by the Advisory Council on Intergovernmental Relations found that 36% of the people surveyed felt that both taxes and services should be decreased. Lawmakers, frustrated by a revenue-short general fund that prohibits their launching many new programs which they deem worthy persist in dedicating special taxes to these causes. This is a desperate and dangerous trend that must be reversed. When cigarette taxes go into the general revenue fund, the competition for these dollars assures appropriate legislative examination and wise use of tax dollars.

BOOTLEGGING

One indirect but important measure of both organized and individual (i.e., casual) smuggling is the difference between a state's per capita cigarette sales and those of a neighboring state or the U.S. average. States into which individuals or organized crime smuggle a substantial amount of cigarettes would be expected to have a markedly lower per capita consumption. Conversely, states in which substantial sales are made for out-of-state consumption will likely exhibit relatively higher per capita cigarette consumption figures. Data for 1984 show that overall per capita consumption in Montana is 110.0 packs. (Table I). The U.S. unweighted average per capita is 122.7 packs. Montana is also at a 4 cents/pack tax disadvantage with three of four surrounding states, and recorded a per capita sales disadvantage with all four of its neighboring states. This comparison implies some potential smuggling of cigarettes into Montana from states with lower tax rates as well as substantial untaxed sales on Indian Reservations which are estimated to be 15-20% of total taxes and untaxed cigarette sales in this state.

Any tax increase would depress legal sales in Montana and would lead to increases in bootlegging and further losses in expected revenue. In other states where high cigarette taxes exist, the criminal element has become involved. If Montana were to raise its tax on cigarettes, the bootlegging problem will likely grow in proportion to the tax increase.

TABLE I

MONTANA AND SURROUNDING STATES, CIGARETTE TAX DATA, 1984

State	Cigarette Tax Rate	Sales Tax Per Pack	State Total Tax Per Pack	FY 84 Difference with Montana
Idaho	9.1¢	4¢	13.1¢	- 2.9¢
Wyoming	8.0	-	8.0	- 8.0
North Dakota	18.0	4	22.0	+ 6.0
South Dakota	15.0	-	15.0	- 1.0
Montana	16.0	-	16.0	------------

State	Tax-Paid Sales Per Capita	FY 84 Difference with Montana
Idaho	103.6	+ 6.7
Wyoming	128.9	+32.0
North Dakota	109.4	+12.5
South Dakota	105.7	+ 8.8
Montana	110.1	------

A COMPARISON OF STATE RATES AND TAX REVENUES

Montana is already at a competitive disadvantage with three of four neighboring states in terms of its cigarette excise tax rate. (See Table I). Any increase in the tax rate would erase the advantage over North Dakota and would widen the disadvantage with South Dakota, Idaho and Wyoming.

From 1983 to 1984, cigarette excise tax revenue increased in Montana to more than $13 million. This amount represents 2.5% of the state's 1983 total tax revenue, and an impressive 12.2% of the state's total sales and gross receipts tax revenue. Cigarette taxes generate more revenue for Montana than taxes on beer, liquor and wine, and public utilities. (Data from U.S. Bureau of the Census, State Government Tax Collections in 1983. Cigarette excise figures from Miscellaneous Tax Division, Montana Department of Revenue.)

IMPACTS OF AN INCREASE IN THE MONTANA CIGARETTE EXCISE TAX

Higher cigarette taxes will affect revenues and work weeks in sectors both directly and indirectly involved in the tobacco industry in Montana. Most of these effects will be in the form of revenue losses to wholesalers and retailers.

Higher cigarette taxes and the resulting decline in the purchase of tax-paid cigarettes will also reduce state revenue from other sources, such as corporate income tax, and the individual income tax. For example, cigarettes are traffic-builders for the state's thousands of retail establishments which sell cigarettes. When people reduce purchases of cigarettes, or turn to bootlegged cigarettes, the revenue derived from the sales and profits of other products suffers as in-store traffic declines. In addition to retailers, Montana has several primary tobacco wholesalers, other large grocers, drug and miscellaneous wholesalers who handle cigarettes across the state.

Decreased consumption due to a higher cigarette tax rate will affect supermarkets and convenience stores as well. According to the September 1984 issue of Supermarket Business, tobacco products account for about 15% of all non-food sales in the United States. More than 40% of the cigarettes sold for domestic consumption are sold in supermarkets. Those cigarettes and other tobacco products account for 3.5% of all supermarket sales. In convenience stores, excluding gasoline sales, cigarettes are the number one product sold. Tobacco products comprise 16.7% of gross profits in convenience stores, according to Convenience Store News (June 1984).

THE BURDEN OF EXISTING TAXES

The Montana cigarette tax is already a regressive and inequitable tax. The cigarette tax discriminates against the estimated 200,000 residents of the state who smoke, but the tax falls most heavily on those least able to afford it. Because the percentage of income devoted to buying cigarettes falls as income rises, Montana cigarette taxes are already levied at higher effective rates on the disadvantaged and those on fixed incomes than on the more affluent. Any increase in the current tax rate will add to the tax burden on the lower income groups and will contribute further to the overall regressivity of the state tax structure. An increase of 8¢ would mean a 100% increase in the tax in less than two years.

In 1984, 33.5% of what Montana smokers paid for a pack of cigarettes went to the Federal and state governments in the form of taxes. For a family with two average smokers, the following chart illustrates the burden of cigarette taxes in Montana as they fall on different income levels at the current and potential future rates. (See Table II).

More than 21% of Montana families have an effective buying income of less than $10,000 per year. All told, nearly 36% have incomes less than $15,000. It is these families who will suffer the most from an increase in the cigarette tax rate. A family with an income below the poverty level with two average smokers pays almost five times as much of its income for the pleasure of smoking as does a more affluent family making $25,000 a year.

In addition, about 11% of Montana residents are aged 65 or over. For these elderly persons, many of whom are living on a fixed income, any increase in the cigarette tax rate could threaten this affordable pleasure.

Median household effective buying income in Montana is only $20,253 per year, compared with a national average of $23,400. Under the current tax, a household in Montana with two average smokers pays $350.00 in state and federal taxes on cigarettes a year for the pleasure of smoking. If the state were to increase its tax another 8¢ - a 50% increase - that tax figure would soar to $438 annually.

TABLE II

PERCENTAGE OF INCOME PAID IN ALL TAXES ON CIGARETTES AT CURRENT AND POTENTIAL FUTURE RATES

FOR A FAMILY WITH TWO AVERAGE SMOKERS IN MONTANA

Income	Percentage of Income Paid in Taxes on Cigarettes (current rate)	Percentage of Income Paid in Taxes on Cigarettes (with proposed 8¢ hike)
$ 5,000	7.0%	8.8%
8,000	4.4	5.5
10,000	3.5	4.4
15,000	2.3	2.9
20,253	1.7	2.2
25,000	1.4	1.8

Tax on Cigarettes Won't Be Reduced As Scheduled on Oct. 1, Packwood Says

By DAVID SHRIBMAN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The chairman of the Senate Finance Committee predicted that Congress would block a scheduled cut in the federal excise tax on cigarettes.

"If I were betting—and this is just a hunch because we haven't even addressed ourselves to that task—my hunch would be the tax will be extended," Sen. Bob Packwood (R., Ore.) told wire-service reporters yesterday. "It won't be raised. It won't be lowered, but it will be extended."

Mr. Packwood's remarks were the first time the new committee chairman has addressed the issue of the tax, which is scheduled to drop from 16 cents a pack to eight cents on Oct. 1, and fueled a debate that began earlier this month when Margaret Heckler, secretary of Health and Human Services, suggested extending the tax and using the revenue to boost the financially troubled Medicare system.

Mr. Packwood didn't specify what the money might be used for.

Renewing the excise tax would provide the Treasury with an additional $1.7 billion in fiscal 1986, and with Congress in the mood to trim the federal deficit, some legislators believe the cigarette tax cut may be in jeopardy.

At the same time, however, some congressional Republicans and some White House officials argue that canceling a tax cut amounts to a tax increase, which President Reagan has opposed. Any attempt to cancel the cut, moreover, would face the strenuous opposition of lawmakers from tobacco-producing states, including Sen. Jesse Helms (R., N.C.), chairman of the Senate Agriculture Committee.

"We shouldn't even be talking about any tax increase right now," said Republican Sen. Mack Mattingly of Georgia, another tobacco state. "The president said we're not going to tinker with taxes, and we shouldn't tinker with taxes. If you start tinkering with taxes, you won't get the spending cuts you want."

Mr. Mattingly was one of nine Republican legislators who attended a White House luncheon meeting with David Stockman, the budget director; James Baker, the White House chief of staff and Treasury Secretary-designate, and Richard Darman, a presidential assistant. The meeting was one of a series of sessions with Republican senators and, according to Sen. Slade Gorton of Washington state, a member of the Budget Committee, the result is that "there will be some significant differences in the budget produced by the White House."

Meanwhile, Sen. Alan Simpson of Wyoming, the deputy majority leader, said that cuts in military spending and in cost-of-living adjustments for recipients of Social Security would be necessary if the budget cuts are to avoid being "tokenism."

Mr. Simpson suggested that progress at arms negotiations talks with the Soviet Union might dictate military spending cuts, adding that entire military systems may have to be eliminated, perhaps at the cost of paying penalties for breaking procurement contracts. "We may have to pay the damages and step away instead of saying, 'You can't stop now,' " he said.

Mr. Simpson, speaking at a breakfast meeting with reporters, said that Congress would consider limiting Social Security increases to "two or three" percentage points less than the consumer price index. He added, in a reference to those who oppose such cuts, "When we show them the figures of where we are, they'll know that the other things are cosmetic."

Sen. Packwood said that he believes that there may be sufficient votes to approve such a plan.

Separately, Mr. Stockman said after a meeting yesterday evening with Sen. Robert Dole of Kansas, the majority leader, and Senate staff directors that he sensed a growing consensus that deep budget cuts would be acceptable on Capitol Hill. "Most of them are saying that their committees are willing to go along," Mr. Stockman said. "If there's a big package and everyone's in it."

FOR IMMEDIATE RELEASE
WEDNESDAY, FEBRUARY 6, 1985

PRESS RELEASE #1
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
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THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES HEARINGS ON FUNDAMENTAL TAX REFORM AND OTHER TAX ISSUES

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced public hearings on the basic concepts involved in fundamental tax reform and hearings on other specific tax issues pending before the Committee.

Hearings on Fundamental Tax Reform

The Committee will begin public hearings on the basic concepts involved in tax reform, simplification and fairness on Wednesday, February 27, 1985. The hearings will be held in the main hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m. The first witness will be the Secretary of the Treasury, the Honorable James A. Baker III.

The hearings will involve testimony on the policy concepts underlying fundamental tax reform proposals, including the Treasury proposal announced in November, 1984, and other similar proposals that have been the subject of recent analysis and debate.

The general public is requested to prepare testimony with reference to the basic policy issues in the tax reform proposals that have been put forward. A specific date for beginning the public phase of these hearings will be announced after an appropriate interval to afford the public an opportunity to evaluate Secretary Baker's testimony.

In announcing these hearings, Chairman Rostenkowski stated, "It is essential that we begin consideration of fundamental tax reform. We cannot ignore the opportunity -- or responsibility -- that has been presented. To understate the obvious, the American people are frustrated by the complexity of the tax form and disillusioned by a sense of unfairness in the law. Thus, it is imperative that the tax code be scrutinized from top to bottom with simplicity, equity and fairness as our goals."

Hearings on Other Tax Issues

over

Once the Committee's agenda relative to fundamental tax reform and deficit reduction is established, the Committee anticipates scheduling consideration of other tax issues -- many of which

-MORE-

At a time when concern about farm and pollution problems caused by agricultural runoff is growing in Congress, the Reagan Administration this week proposed massive cuts in conservation programs that would shift the lion's share of responsibility to control runoff from the federal government to the states and individuals. Reagan's plan as disclosed in budget documents would within a year eliminate half a dozen Agriculture Dept. cost-sharing programs that now distribute hundreds of millions of dollars yearly to farmers to promote soil and water conservation, retaining only "a basic level of federal technical assistance." The Administration's principal rationale is that the $25-billion spent on agricultural conservation since the first program was instituted in 1936 "simply has not worked."

For a savings of some $400-million next year and $700-million in 1996, the Administration is proposing to terminate the Agricultural Conservation Program, Emergency Conservation Program, Great Plains Conservation Program, Water Bank Program, Forestry Incentives Program, Resource Conservation and Development Program, and Small Watershed Planning Program. Some small flood control and drainage projects still would be financed by the Army Corps of Engineers, according to the documents. The Administration plan would retain the Soil Survey program, Plant Materials Centers, and technical assistance to soil conservation districts and landowners.

The Administration plan dashes hopes reportedly held by some in Congress that Reagan would use existing conservation programs to help get a rein on water and groundwater pollution caused by erosion and pesticides runoff, though the USDA programs originally were designed to conserve land and water for farm purposes. Congress last year came close to passing legislation to create a whole new incentives program to deal with runoff pollution, but many felt any new environmental program would be ineffective unless coordinated with USDA soil conservation programs. In documents provided by the Office of Management & Budget, the Administration asserts that erosion is no longer "a serious problem" on all cropland, and that individual farmers and states should become fully responsible for conservation decisions in the future. The same documents note, though, that states currently are spending only $245-million yearly on agricultural conservation and could not immediately make up for the $800-million USDA now spends annually.

REAGAN, AVERTING TOBACCO POLITICS, LEAVES CIGARETTE TAX RENEWAL TO CONGRESS

The Reagan Administration, in a strategic move to court support from powerful tobacco-state Senators for its market-oriented 1985 farm bill, has avoided the politically explosive issue of a federal cigarette tax in its FY-86 budget. The budget does not extend the expiring 16¢ federal cigarette tax, worth an estimated $4-billion in revenues. But Administration silence on the issue presumes that Congress will extend, and possibly, increase the tax, thereby preserving it as a revenue-raiser but allowing the White House to avert conflict with important tobacco-country Senators like Jesse Helms (R-NC). Without an extension, the tax will revert back to a pre-1982 rate of 8¢.

The Reagan Administration is currently trying to lessen intense opposition to its 1985 farm bill and is particularly interested in wooing Helms, Agriculture Committee chairman. It was Helms who fought hardest for a sunset provision — in the 1982 Tax Equity & Financial Responsibility Act which raised the tax from 8¢ to 16¢ through September 1985 — to retire the higher tax.

The Administration's avoidance of the cigarette tax issue has not eluded Senate Finance Committee Chairman Bob Packwood (R-OR) who said recently he "has a hunch" the committee will move swiftly to consider a new tax. The House is also beginning to consider legislation, with Rep. Andrew Jacobs (D-IN) planning to introduce a bill this week that would increase the tax to 24¢/pack and earmark the funds for Medicare and federally funded cancer research and treatment.

Congressional observers predict the cigarette tax debate will erupt in an emotional battle between the powerful $26-billion tobacco industry and the increasingly vocal anti-tobacco coalition. The federal revenues from the tax are considerable, with estimates projecting a $4-billion/year reduction if the tax is reduced to 8¢.

HHS Secretary Margaret Heckler supports earmarking tax revenues for Medicare, according to informed sources who say officials of the Dept. of Health & Human Services have proposed the idea. Administration sources, charging that tobacco companies will reap greater profits rather than reduce costs to the smoking consumer, support the "unofficial proposal" to earmark cigarette tax revenues for federally funded cancer research. But the Administration is not expected to either propose or endorse such a proposal.

Pro-tobacco interests are expected to argue against retaining the 16¢ tax rate on grounds that it unfairly discriminates against taxpayers who "happen to smoke" — an argument that is not expected to carry much weight in congressional debates. Anti-tax lobbyists charge a permanent tax will set an "unwarranted precedent" position, saying that legislation to either retain or increase the 16¢ tax would provide Congress a revenue-raising vehicle it will unfairly turn to each year to hike revenues.

Field
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Editorials

Congress Shouldn't Reduce the Tax on Cigarettes

The federal tax on cigarettes, currently 16 cents a pack, is scheduled to be cut by half next fall. One Cabinet member, Health and Human Services Secretary Margaret Heckler, wants to keep the tax at its present level and earmark the additional money for Medicare.

Is that a good idea? Well, yes and no.

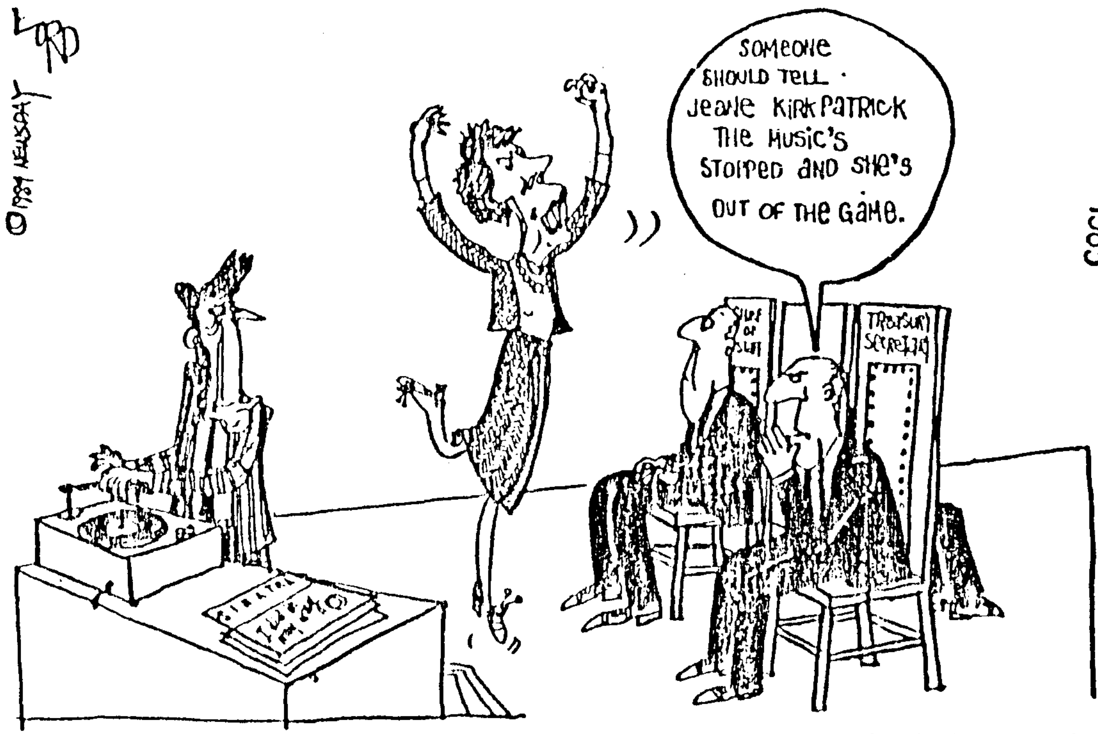
Extending the tax is definitely prudent, given the size of the federal deficit; the administration should endorse that part of Heckler's proposal. But dedicating the revenue to Medicare — or to any other specific purpose — is another matter.

Congress doubled the cigarette tax from 8 cents a pack to 16 cents in 1983 as part of an effort to reduce the deficit. But the increase was only temporary, and unless Congress extends the present tax, it will revert to 8 cents on Oct. 1.

The tax should be maintained at 16 cents instead of being allowed to fall. When it was set at 8 cents in 1951, the federal tax represented about 37 percent of the average price of a pack of cigarettes. At current cigarette prices, the tax is something like 20 percent of the cost of a pack. Considering the health hazard that cigarettes represent, there's no reason to further reduce the rate at which smokers are taxed.

Besides, the deficits that the new revenue was meant to reduce haven't been cut at all. In fiscal 1986, the first budget year that would be affected by the loss of cigarette tax revenue, the administration expects income to fall $225 billion short of outlay, compared to a $208-billion shortfall in 1983. Holding the cigarette tax at 16 cents would bring in at least $1.7 billion a year more in sorely needed revenue.

But that revenue should go into the treasury, not specifically to Medicare. Earmarking taxes is too rigid; spending decisions shouldn't be tied to specific revenue sources. Medicare needs to be bolstered, but not in a way that makes it dependent in any way on Americans' smoking habits.



Newsday Cartoon / M.G. Lord

The Boston Globe

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Where there's smoke

Margaret Heckler, President Reagan's Secretary of Health and Human Services, has made an innovative proposal that links the cigarette tax to funding of Medicare. Although the proposal will not solve the long-term problems of the Medicare system, it deserves support from the President and Congress.

Medicare, funded by the payroll tax, is expected to slip into deficit sometime this year or, at the latest, next year. By 1993 it will have liquidated surplus funds built up over the years, according to forecasts.

Heckler suggests that the cigarette tax be kept at 16 cents a pack rather than dropping to eight cents, as scheduled for Oct. 1, and that the proceeds be dedicated to Medicare. Such a tie-in would be appropriate, since massive evidence has linked smoking with many medical problems.

Heckler's proposal would also establish a sound precedent for funding Medicare from sources other than the payroll tax. Medicare outlays, unlike the pension, disability and survivors portions of the Social Security system, have no relationship to the beneficiaries' income levels and tax payments. Benefits are paid solely on the basis of the medical needs of the beneficiaries. Funding such benefits on the regressive payroll tax has always been inappropriate; using the cigarette tax would serve to break out of that policy.

The cigarette tax is also regressive, since it is blind to the income level of those who pay it. Despite this flaw, nothing should be done that encourages smoking – since the afflictions of smoking are also visited upon victims without regard to income level.

Congress can take the initiative by repealing the reduction in the cigarette tax, adding about $1.7 billion a year to Medicare revenues. Ideally, from the health-care point of view, this would be a diminishing source of income if the number of smokers declines. That, in turn, would focus attention on the need for still broader revenue support for Medicare.

Los Angeles Times 'Wednesday, January 9, 1985 (EDITORIAL)

Socking It to Smokers

Come Oct. 1 the current 16-cent-a-pack tax on cigarettes is scheduled to drop to 8 cents, a move that would deprive the Treasury of needed revenue even as it undercut a modest economic disincentive to smoking. Health and Human Services Secretary Margaret M. Heckler believes, as anyone with any sense must, that Congress made a mistake when it voted last year to let the cigarette tax fall. She is arguing for a retention of the 16-cent tax, but she wants about half the $4 billion a year that it raises earmarked for the Medicare hospital insurance trust fund.

Heckler makes an interesting argument for dedicating part of the tax to a specific use. The trust fund spends $6 billion a year on elderly and disabled people with lung cancer and other smoking-related illnesses. The fund also faces the prospect of going broke in the early 1990s, when its expenses are projected to exceed its income from payroll taxes. Heckler suggests that the cigarette levy be regarded as a user fee. Since smokers run greater health risks than non-smokers, they should contribute directly to costs of their later medical care.

Our own view is that the 16-cent tax ought to be not just retained but also radically increased—as a revenue-raising measure certainly and, more to the point, an effort to make cigarettes so expensive that young people tempted to take up smoking might find them happily unaffordable. The best way to deal with the addiction of smoking is not to treat its health consequences after the fact but to discourage dependency in the first place.

We cannot, though, support the idea of earmarking the cigarette tax. Get into the pattern of committing specific revenues to specific purposes and there's no end to it. Smoking is indeed a costly health problem. But so, for example, are obesity and overindulgence in artery-clogging foods. Should there then be a "fat" tax to help pay for the diseases brought on by bad eating habits? With few exceptions the best destination for taxes is the general fund. That fund deservedly ought to be added to with a cigarette tax much higher than it is now, and certainly much higher than it is due to become in October unless Congress has wiser second thoughts.

A SUMMARY OF CIGARETTE TAX TRENDS AND IMPACTS IN MONTANA

The Tobacco Institute
Washington, D. C.
January, 1985.

MONTANA'S TAX STRUCTURE AND COMPARISONS TO STATE AVERAGES

Montana ranks relatively low in per capita income (37th). It is low in manufacturing employment (45th) at 7.7% of non-agricultural work force, and high in government employment, (3rd and 26.5 %).

Montana is high (11th) in per capita state & local revenues and state & local taxes (14th) per capita, but it is low in debt as a percent of taxes.

Montana has no general sales tax and local government must rely heavily on property taxes as a revenue source (47.4% vs an average 30.8% for all taxes, 25.8% vs an average 18.0% from all revenue sources, and $582 per capita).

Montana's tax effort is only 92 percent of the all state average, but its ACIR fiscal capacity ranks a high 8th.

Montana is higher than average in selective sales taxes and in individual income taxes (10th per $1000 income) as state tax sources. MT receives relatively high federal aid per $1000 income, and it is moderate (27th) in total state tax revenue per $1000 of personal income.

Montana has a high per capita beer consumption (4th) and a relatively low tax as a percent of average price (2.8% vs an average of 7.7%), and has low electric utility tax rates.

As stated, Montana derives a large percentage by source of its tax revenue from selective sales taxes on fuels, insurance, alcoholic beverages, and particularly tobacco as a source (4th) with 10.4% vs an average 4.77%.

A general sales tax on other retail products and services would seem to be logical if tax revenues must be increased.

ECONOMIC IMPACTS IN FY 1986 FROM SMOKERS' ALTERNATIVES ACROSS A RANGE OF STATE EXCISE TAX RATES FOR MONTANA

State Tax Rate In Cents/Pack	Expected FY86 Cigarette Sales In Million Packs	Expected Losses In Wholesale/Retail Income Associated With the State Tax Rate In Millions Of Dollars
-0-	97.472	-0-
10	93.213	0.767
16 current	90.657	1.227 current
24	87.249	1.840

Smokers' alternatives include interstate purchases in Wyoming and Idaho, on MT Indian reservations, use of other forms of tobacco, and cutting back on cigarettes.

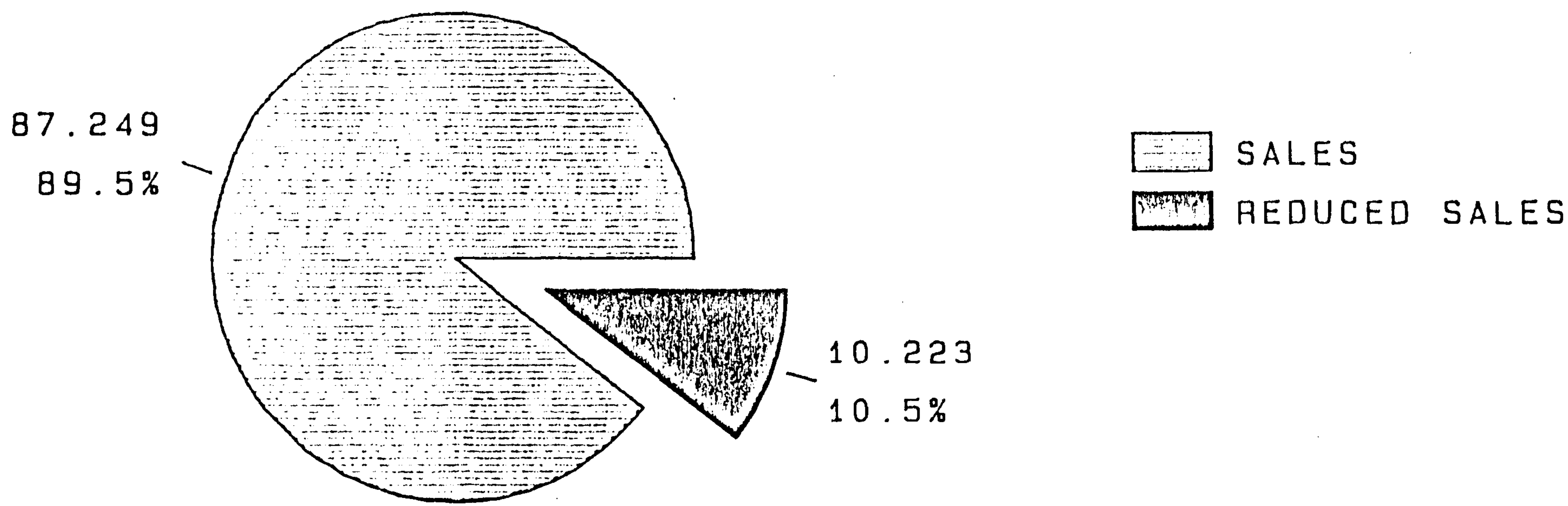
Since Montana's average cigarette price is higher than its neighboring states (two), interstate buying can be expected as well as off reservation sales, both of which reduce MT's tax revenue and per capita apparent consumption of cigarettes.

Projections are estimated from the most recent econometric model of Montana's cigarette sales.

MONTANA FY 86 CIGARETTE SALES AND REDUCED SALES

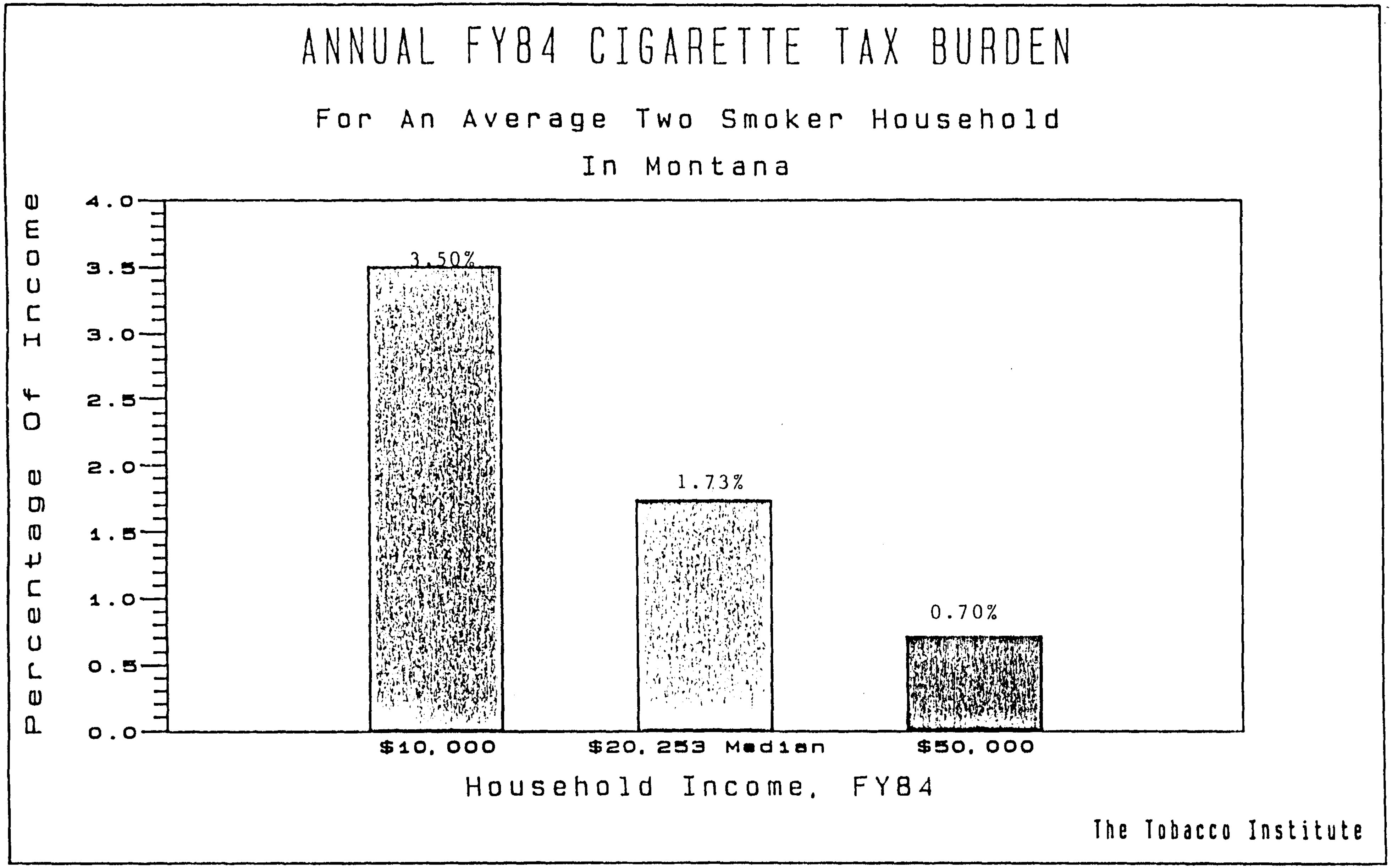
Associated With A $.24 State Tax Rate

(Millions Of Packs)



The Tobacco Institute

THE CHART INDICATES THE ESTIMATED REDUCED SALES COMPARED TO SALES IF THE TAX RATE WERE ZERO. REDUCED SALES ARE ACCOUNTED FOR BY REDUCED SMOKING, OUT OF STATE PURCHASES IN WYOMING AND IDAHO, PURCHASE FROM RESERVATIONS, AND ALTERNATIVE FORMS OF TOBACCO USE.



THE CHART INDICATES THE CIGARETTE TAX BURDEN ON SMOKERS AND THE TAX REGRESSIVITY ON LOWER INCOME HOUSEHOLD MEMBERS WHO SMOKE.

Table of Rates

The following are rates of state cigarette taxes per pack of twenty cigarettes exclusive of any local taxes. For details, see the following state summaries.

State	Rate	State	Rate
Alabama	16.5¢	Montana	16¢
Alaska	8¢	Nebraska	18¢
Arizona	15¢	Nevada	15¢ [7]
Arkansas	21¢	New Hampshire	17¢
California	10¢	New Jersey	25¢ [9]
Colorado	15¢ [3]	New Mexico	12¢
Connecticut	26¢	New York	21¢ [5]
Delaware	14¢	North Carolina	2¢
District of Columbia	13¢	North Dakota	18¢
Florida	21¢	Ohio	14¢
Georgia	12¢	Oklahoma	18¢
Hawaii	40% [2]	Oregon	19¢ [4]
Idaho	9.1¢	Pennsylvania	18¢
Illinois	12¢	Rhode Island	23¢
Indiana	10.5¢	South Carolina	7¢
Iowa	18¢	South Dakota	15¢
Kansas	16¢ [1]	Tennessee	13¢
Kentucky	3¢ [6]	Texas	19.5¢ [8]
Louisiana	16¢	Utah	12¢
Maine	20¢ [10]	Vermont	17¢
Maryland	13¢	Virginia	2.5¢
Massachusetts	26¢	Washington	23¢
Michigan	21¢	West Virginia	17¢
Minnesota	18¢	Wisconsin	25¢
Mississippi	11¢	Wyoming	8¢
Missouri	13¢		

[The next page is 5521.]

[1] Kansas: If the increase in the federal excise tax on cigarettes imposed and in effect on January 1, 1983, is abolished, the Kansas rate becomes 24¢ on and after October 1, 1985.

[2] Hawaii: 40% of wholesale price.

[3] Colorado: The tax rate is reduced to 10¢ per pack on July 1, 1985.

[4] Oregon: Tax rate drops to 9¢ on January 1, 1986.

[5] New York: Tax rate lowered to 15¢ on April 1, 1985.

[6] Kentucky: Plus a $.001 tax each package of cigarettes.

[7] Nevada: Effective July 1, 1985, the tax rate is reduced to 10¢ per pack.

[8] Texas: The tax rate is increased to 20.5¢ per pack on September 1, 1985.

[9] New Jersey: The figure includes a surtax levied at the same percentage as the sales tax and based on average wholesale price.

[10] Maine: The tax rate is increased to 28¢ on October 1, 1985.

Exhibit 5 -- SB 161, SB 442
March 5, 1985

Amend SB 431, introduced copy:

1. Page 1.
Following: line 18.
Insert: "contains not less than 5 contiguous acres when measured in accordance with provisions of 15-7-206 and it"

2. Page 2, line 11.
Strike: "_;_"

3. Page 2.
Following: line 16
Insert: "regardless of the number of contiguous acres in the ownership;"

4. Page 2, lines 22 through 24.
Following: "is" on line 22
Strike: through "(1)(d)" on line 24
Insert: "not a parcel within a platted, filed subdivision or a commercial or industrial site"

5. Page 3, line 21.
Following: "includes"
Insert: "not more than"

6. Page 3, line 23.
Following: "at"
Insert: "a fraction of market value equivalent to"

Exhibit 6 -- SB 431
March 5, 1985

STANDING COMMITTEE REPORT

March 5, 19 85

MR. PRESIDENT

We, your committee on Taxation

having had under consideration Senate Bill No. 464

first reading copy (white)
color

EXCLUDE CERTAIN DISABILITY BENEFITS FROM ADJUSTED GROSS INCOME.

Respectfully report as follows: That Senate Bill No. 464

DO PASS

XXXXXXXPASS

Senator Thomas E. Towe, Chairman.