

## NATIONAL ASSOCIATION of TOBACCO OUTLETS, INC.

March 3, 2024

**To:** Chairman Marvin Abney  
Members of the House Finance Committee

**From:** David Spross, NATO Executive Director

The National Association of Tobacco Outlets (NATO) is a national trade association of over 66,000 members, including hundreds of retail store members across the State of Rhode Island. NATO and its Rhode Island member stores urge you to oppose those portions (Sections 3, 6, and 14 through 20) of the budget bill, HB7225, which increase taxes on cigarettes, apply the 80% tax to e-cigarette products, and ban e-cigarette flavors other than tobacco. These portions of the budget bill should be stricken for many reasons:

- **The Existing Illicit Market Would Grow Exponentially.** Higher taxes will make supplying and selling illicit cigarettes and vapor products more lucrative in Rhode Island. The difference in price between low tax states (not just neighboring states) and Rhode Island will be that much greater, and together with banning the sale of flavored vapor products in Rhode Island will make the existing smuggling and illicit market even more enticing. Smuggling tobacco products is well-recognized. The Tax Foundation, for example, found that in 2020, over 23% of cigarettes consumed in Rhode Island had been smuggled in, the tenth highest rate in the country. This legislation will embolden these illegal sellers, who do not care if they sell to underage persons nor harm responsible Rhode Island retailers.
- **Rhode Island Could Lose Millions in Tax Revenue and Business Activity.** These tax increases will also drive tobacco product sales out of Rhode Island to the internet or other states. New Hampshire's taxes on e-cigarettes would be much lower than that of Rhode Island on both cigarettes and e-cigarettes, making it relatively simple for many Rhode Island residents to make the short journey to New Hampshire to stock up on their preferred products.
- **Economic Impact on Retailers Would Force Layoffs and Stores to Close.** Rhode Island retailers include tobacco-only stores, with virtually all revenue from tobacco sales including e-cigarettes, and convenience stores, with approximately 36% of in-store revenue from tobacco products. The lost tobacco product sales because of large tax disparities may force tobacco-only stores to close and may make the convenience store business model untenable, causing layoffs or closures.
- **Raising Taxes and Banning Flavors on E-Cigarettes is Contrary to Public Health:** Many smokers have turned to vapor products to reduce or eliminate use of cigarettes as a means of reducing harm to the consumer. In fact, the FDA has approved the marketing of twenty-three e-cigarettes and the liquids used in them, finding after rigorous scientific testing that the products are "appropriate for the protection of the public health," and it continues to review applications for thousands of other products, some of which are flavored. If e-cigarette taxes increase or flavors, particularly menthol, are banned, users may return to cigarettes, and the "protection of the public health" of the already approved e-cigarette products, and others which may meet this rigorous test in the future, will be lost.