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Memorandum

Date: March 1, 2024

To: Members of the Rhode Island Legislature

From: Adam Hoffer, PhD, Director of Excise Taxation, Tax Foundation

Subject: Comments on RI H7225 Regarding an Increase in the Cigarette Tax Rate and a New Tax on Electronic Nicotine Delivery Systems

H7225 contains language that would increase Rhode Island's cigarette tax rate by \$0.25 per pack and apply an 80 percent wholesale tax to all vaping/electronic nicotine delivery system (ENDS) products.

Given the design of ENDS products, a bifurcated system that applies separate taxes to open and closed systems is a better tax design than one that lumps all ENDS products into a single category. Both New Jersey and New Hampshire successfully employ bifurcated taxes on vaping products.

An 80 percent wholesale tax on vaping products would be one of the highest in the country. It would also decrease the use of vaping products, which is desirable for non-smokers but undesirable if vapor users are switching from more harmful combustible tobacco products. Studies show that high vapor taxes discourage smokers from switching and that preferential rates on vapor, as opposed to combustible tobacco, are consistent with harm reduction.

To quantify these effects, an academic study published in 2020 explored the 95 percent wholesale vaping tax in Minnesota and found that the tax caused more than 30,000 fewer people to switch from smoking combustible cigarettes to e-cigarettes because of the higher post-tax price on e-cigarettes.¹ This switching effect tends to be much more significant than the effect on take-up by nonsmokers, and vaping and e-cigarette use remain one of the most powerful tools to help smokers quit smoking.

Increasing cigarette taxes, on the other hand, are one of the least effective means of decreasing smoking, due in part to the ease of finding lower-taxed or untaxed black-market alternatives. The latest data show that nearly 1 in every 5 packs of cigarettes consumed in

¹ Henry Saffer et al., "E-cigarettes and adult smoking: Evidence from Minnesota," *Journal of Risk and Uncertainty* 60 (2020): 207-228.

Rhode Island are not purchased in the state.² That number will almost certainly increase with an increase in the cigarette tax.

Legislatures are charged with the difficult task of striking the right balance. They often simultaneously seek to discourage the take-up of products by non-smokers, encourage smokers to switch to vapor products, and raise enough revenue to fund smoking cessation and other public health programs. As you consider these matters, we are happy to be a resource and would be delighted to provide you with more research on this topic. Thank you for your time.

² Adam Hoffer, "Cigarette Taxes and Cigarette Smuggling by State, 2021," Tax Foundation, Dec. 5, 2023, <https://taxfoundation.org/data/all/state/cigarette-taxes-cigarette-smuggling-2023/>.