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Memorandum

Date: April 7, 2026

To: Members of the House Finance Committee

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

Subject: House Bill 7804 Regarding a Differential Tax Rate on Modified Risk Tobacco Products

Stance: Neutral; Tax Foundation does not make direct recommendations on legislation

House Bill 7804 (H 7804) would establish a reduced tax rate on modified risk tobacco products (MRTPs), ensuring the tax applied to those less harmful products is 75 percent less than the rate charged to combustible cigarettes.

Lower tax rates on less harmful products align with recommendations from both Tax Foundation and the US Food and Drug Administration. Products that allow users to consume nicotine via methods other than combustible cigarettes are substantially less harmful to consumers. Taxes should reflect relative harm to avoid perverse incentives.

Some alternative tobacco products (ATPs) have not yet received designation as MRTPs despite being markedly less harmful than combustible cigarettes. To fully embrace harm reduction and best reduce the risk of tobacco-related disease, tax rates should be structured to encourage price differentials between all less harmful products and traditional combustible cigarettes.

Tax Foundation released a study providing a framework for taxing less harmful tobacco products, including MRTPs and other alternative products.¹

Minimum Alternative Tobacco Product Rate Reduction to Promote Harm Reduction

| <u>Product</u> | <u>Tax Rate Relative to Combustible Cigarettes</u> |
|----------------------------------|--|
| Very Low Nicotine Cigarettes | 50% of Cigarette Tax Rate |
| <u>Loose Tobacco</u> | <u>(a 50% Reduction Compared to Cigarettes)</u> |
| Heated Tobacco Products | 25% of Cigarette Tax Rate |
| <u>Moist Tobacco</u> | <u>(a 75% Reduction Compared to Cigarettes)</u> |
| E-Cigarettes and Vaping Products | 10% of Cigarette Tax Rate |
| <u>Modern Oral Tobacco</u> | <u>(a 90% Reduction Compared to Cigarettes)</u> |
| Nicotine Replacement Therapies | 0% of Cigarette Tax Rate |
| <u>(Gums, Patches, Lozenges)</u> | <u>(a 100% Reduction Compared to Cigarettes)</u> |

¹ Adam Hoffer, "How Should Alternative Tobacco Products Be Taxed?," Tax Foundation, Aug. 24, 2023, <https://taxfoundation.org/research/all/federal/taxing-alternative-tobacco-products/>.

That report suggests that because of the public health benefits that come from smokers switching from combustible cigarettes to ATP, those alternative products should have a reduced rate compared to traditional cigarettes. Rhode Island currently has a tax on vapor products of \$0.50 per milliliter and levies an 80 percent tax on other alternative products like nicotine pouches. These relatively high tax rates may discourage smokers from switching to less harmful methods of nicotine consumption.

Establishing a 75 percent reduced tax rate on MRTPs aligns with the best practices for taxing less harmful products, but Rhode Island could extend the same harm-reduction principle to other products to optimize the benefits.

Legislatures have the difficult task of striking the right balance between discouraging the take-up of products by non-smokers, encouraging harm reduction with smokers switching to less harmful products, and raising enough revenue to fund public 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.