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Chair Casey, Vice Chair Mclaughlin, Members of the Committee,

My name is Ulrik Boesen, and I am a senior policy analyst at the Tax Foundation. For those unfamiliar with us, we are a non-partisan, non-profit research organization that has monitored fiscal policy at all levels of government since 1937. We have produced the Facts & Figures handbook since 1941, and each year, we produce the State Business Tax Climate Index. We have a wealth of other data, rankings, and information at our website, www.TaxFoundation.org.

I submit this testimony on H 6396 which deals with flavored tobacco products. While we take no position on the bill, I wanted to share some research on a flavor ban's effect on tax revenue. We have looked at data from Massachusetts which implemented a similar ban last June.

First of all, tobacco excise taxes are, due to their narrow design, an unstable source of tax revenue.¹ Bans that further narrow the tobacco tax base by banning a portion of tobacco sales altogether could worsen the instability of this revenue source. At the same time, a ban could drive up the costs of tax administration and law enforcement, especially if the lost revenue is made up by raising the tax rate on the remaining tobacco tax base.²

Since June 1, 2020, Massachusetts has banned the sale of flavored tobacco products, including menthol cigarettes. A year into Massachusetts' flavor ban, we have data available to study the real-world effects. If we only look at Massachusetts, sales of cigarette tax stamps in the Bay State have declined 24 percent comparing June 2019 to May 2020 with June 2020 to May 2021. Prior to the ban in the first half of 2020, Massachusetts only experienced a decline of roughly 10 percent compared to the first half of 2019. The existing decline in cigarette sales has, in other words, accelerated.

The problem is that Massachusetts' flavor ban has apparently not limited use, just changed where residents purchase their cigarettes. In fact, sales of cigarette tax stamps in the Northeast (Massachusetts as well as Connecticut, Maine, New Hampshire, New York, Rhode Island, and Vermont) have stayed remarkably stable following Massachusetts' ban when compared to sales in 2019.

In 2019, 610,428,000 stamps were sold in the region, and in 2020, that number was 603,280,000. This slight decrease of just about 1 percent trends with the national figures, where sales in 2020 were projected to decline around 2 percent. In conclusion, Massachusetts sales plummeted, but not because people quit smoking—only because those sales went elsewhere.³

¹ Ulrik Boesen and Tom VanAntwerp, "How Stable is Cigarette Tax Revenue?" Tax Foundation, July 9, 2020, <https://taxfoundation.org/cigarette-tax-revenue-tool/>.

² Ulrik Boesen, "Four Issues with Proposal to Increase Tobacco and Vapor Taxes in Maine," Tax Foundation, April 13, 2021, <https://taxfoundation.org/maine-tobacco-tax-vaping/>.

³ Ulrik Boesen, "Massachusetts Flavored Tobacco Ban Has Severe Impact on Tax Revenue," Tax Foundation, Jan 19, 2021, <https://taxfoundation.org/massachusetts-flavored-tobacco-ban/>.



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If we look at individual states, we can see that increases are skewed. The increase in sales in the Northeast region is most notable in Rhode Island and New Hampshire, but most have seen increased sales following the ban. Unsurprisingly, New Hampshire benefits the most as that is already the state in the nation with the highest outflow of cigarettes.

This decline and increase in sales have obviously impacted excise tax revenue in all these states but most notably in Massachusetts. Massachusetts collected \$557 million in cigarette and other tobacco products (OTP) excise taxes in FY 2019 (\$515 million from cigarettes). For FY 2020, the decrease in sales of 10 percent in the first half of 2020 (before the ban) translates to a decline in revenue of roughly \$50 million.

Assuming FY 2021's accelerated decline of over 20 percent continues through the rest of the fiscal year, the cost of the flavor ban could end up being approximately \$120 million for FY 2021 (not including sales tax losses). For the first 11 months of FY 2021, Massachusetts has lost approximately \$110 million in excise tax revenue—more if we add sales tax revenue. That is a significant cost to the state, especially considering that sales are simply shifting to other states, not actually being eliminated.

In December 2019, the Massachusetts Department of Revenue estimated the ban would decrease collections by the slightly lower \$93 million in FY 2021.

Rhode Island experienced an 18 percent increase in tobacco tax revenue when comparing June 2019 to May 2020 with June 2020 to May 2021. This translates to about \$25 million in additional excise tax revenue. The Department of Revenue estimates \$160 million in collections for this fiscal year.⁴

Around 38 percent of cigarettes consumers in Rhode Island smoke menthol cigarettes.⁵ According to Census figures, tobacco excise taxes raised \$138 million in fiscal year 2020.

If Rhode Island has an experience similar to Massachusetts (roughly 25 percent decline in in-state purchases), a flavor ban would result in an excise revenue decline of \$40 million in the first full fiscal year after implementation. The market share of menthol cigarettes is larger in Rhode Island than in Massachusetts, so a similar revenue impact is very likely. The impact of banning flavored vapor products is not included in above estimate, but such a ban will result in additional losses.

Rhode Island already has significant inflow of untaxed cigarettes. Around a quarter of cigarettes consumed in the state are not taxed by the state.⁶ A ban of 38 percent of the market may

⁴ Rhode Island Department of Revenue, "FY 2021 State Of Rhode Island Revenue Assessment Report," 12, <http://www.dor.ri.gov/documents/RevenueAnalysisState/FY2021/202105MonthlyAndYTDRevenueAssessment.pdf>.

⁵ Nicole M. Kuiper, Doris Gammon, Brett Loomis, Kyle Falvey, Teresa W. Wang, Brian A. King, and Todd Rogers, "Trends in Sales of Flavored and Menthol Tobacco Products in the United States during 2011–2015," *Nicotine & Tobacco Research* 20:6 (June 2018): 698–706, <https://doi.org/10.1093/ntr/ntx123>.

⁶ Ulrik Boesen, "Cigarette Taxes and Cigarette Smuggling by State, 2018," Tax Foundation, Nov. 24, 2020, <https://taxfoundation.org/cigarette-taxes-cigarette-smuggling-2020/>.



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exacerbate this problem, as networks of illicit providers of tobacco products stand ready to add a new product to their inventory.

All of this is not to say that lower tobacco consumption is a bad thing. The fact that fewer people smoke is a good thing. Nonetheless, the lesson we have learned from Massachusetts is that flavor bans do not necessarily lower consumption—they may simply move tax revenue to jurisdictions without bans.

Finally, state tax revenue is not the only thing impacted by this ban, however. A ban would also impact the large number of small business owners operating vape shops, convenience stores, and gas stations in Rhode Island.