

NATIONAL ASSOCIATION OF TOBACCO OUTLETS, INC.

March 24, 2026

To: Chair Louis P. DiPalma
Members of the Senate Finance Committee
c/o Jamie Plume, Committee Clerk

Re: House Bill 7127 (Article 5, Sections 3 and 4)-Opposed

From: David Spross, NATO Executive Director

The National Association of Tobacco Outlets (NATO) is a national trade association that represents numerous retail store members across the State of Rhode Island. NATO and its Rhode Island member stores urge you to oppose those amendments included in H 7127, Article 5, Sections 3 and 4, namely an increase of 16.6% in the cigarette tax from \$4.50/pack to \$5.25/pack, a 300% increase in the cigar tax cap from \$0.50 to \$2.00, and the abolition of the existing 1.25% discount on cigarette tax stamps that distributors receive for applying the State's tax stamps.

Cigarette Tax is Declining and the Tax is Regressive

The National Health Interview Survey conducted by the Centers for Disease Control showed that in 2024, 9.9% of adults in the country smoked cigarettes, the first time that figure has been below 10% since it was first measured in the mid-1960s, indicating the long-term decline of cigarette use is continuing. Relying on cigarettes for a revenue stream is ultimately a failing policy.

Moreover, cigarette taxes fall mostly on those residents who are least able to afford them, as lower-income citizens have higher rates of cigarette use compared to the rest of the population, a fact that the CDC has acknowledged. A Gallup Poll released August 12, 2021, reinforced this, showing that 28% of persons with annual incomes under \$40,000 smoked, while only 8% of those with incomes of \$100,000 or more smoked, and a July 2022 Gallup survey found that non-college graduates were twice as likely to smoke as college graduates. On May 5, 2023, the CDC published similar figures. Cigarette use in the lowest income level was nearly double that of the highest income level (20.5% vs. 10.5%); the disparity between those with not more than a high school diploma and those with a bachelor's degree was even greater (21.2% to 9.1%). With less educational attainment and more limited incomes, adult smokers will likely change their buying habits to find less expensive sources of cigarettes, which may include illicit sellers who do not care about whether they are selling to underage customers or not. That an illicit market exists in tobacco products can be seen in the research of the Mackinac Center for Public Policy, which found that in 2023, nearly 6 million packs of cigarettes were smuggled into Rhode Island, meaning that 17% of all cigarettes consumed in the State were from elsewhere, the 15th highest rate in the nation.

The Cigar Tax Cap Hurts Rhode Island Retailers and Further Encourages the Illicit Market

The cigar tax cap increases the tax on most cigars. The current tax cap only impacts cigars the wholesale cost of which exceeds \$0.625, that is, cigars under that wholesale cost are not affected by the existing cap as the tax is 80% of the Wholesale Cost. Raising the cap to \$2.00 raises the tax on all cigars that cost \$0.625 or more, and the cap only applies to those cigars with a Wholesale Cost of \$2.50 or more.

Many more products will face either the entire 80% tax (those with a Wholesale Cost between \$0.625 and \$2.50) or, if over \$2.50, a 300% tax increase from \$0.50 to \$2.00.

With its current tax cap, Rhode Island retailers have something of an advantage over Massachusetts retailers, as the Massachusetts rate is lower (40% of Manufacturer Sales Price), but there is no cap. Raising the cap would lessen this advantage on premium cigars with a Wholesale Cost over \$5.00. As Connecticut has the same \$0.50 cap as Rhode Island, increasing the cap in Rhode Island would create a disadvantage, as cigars over \$0.625 would now become more expensive in Rhode Island than in Connecticut. The primary reason for including a tax cap is to protect local retailers from losing sales to lower tax states. Internet sales also may impact Rhode Island retailers, as may illicit sales by those willing to smuggle products into the State, as noted above. Increasing the tax cap, thereby driving up the cost of all cigars over \$0.625, further incentivizes the existing network of illicit sellers to smuggle cigars across state lines and incentivizes consumers to seek alternatives from other states or the internet.

The tax cap increase cannot be justified as impacting youth usage of cigars, as youth usage is very low. According to the 2025 National Youth Tobacco Survey, an annual school-based survey by the FDA and CDC of students in grades 6 through 12 across the nation, only 1.2% of high school students said they used any cigars at all. Increasing the tax cap impacts adult users of cigars and the retailers who sell them.

Removing the Stamp Discount is Unfair to Distributors

Cigarette tax collection has followed a familiar pattern for decades. Manufacturers or distributors bought stamps from the State, affixed them to the packs, then distributed them to retailers. In this way, the State was assured taxes were paid, and enforcement became easier for the State, as finding an unstamped pack meant taxes were being evaded. Legitimate retailers do not want to sell untaxed packs of cigarettes, and this system was easier for them as well. The small discount on stamps received by distributors, 1.25%, was to compensate them for doing the State's work, applying the State's tax stamps. Doing away with this modest discount effectively conscripts distributors to do the State's work for it for free. Fairness dictates that the State should either keep the discount or do the work itself.

For these reasons, we respectfully ask that you protect Rhode Island retailers and oppose increasing the aforementioned taxes and eliminating the cigarette tax stamp discount. Thank you for your consideration.