



February 2, 2015

House and Senate Finance and Taxation Committees

Dear Members of the House and Senate Taxation Committees,

I write today in opposition to House Bill 1421 and Senate Bill 2322, which would not only harm small businesses but also moderate and low-income consumers. **Raising the state cigarette and Other Tobacco Products (OTP) tax are misguided proposals that should be rejected by the legislature, regardless of the state's financial situation.**

Contrary to claims made by organizations like the Campaign for Tobacco-Free Kids, raising the cost of tobacco products with higher taxes does not necessarily mean tobacco use will decline. **Extensive research suggests that regressive cigarette taxes unnecessarily punish the poor without reducing smoking.** Smokers often minimize the impact of tax increases like those proposed in HB1421 and SB 2322 by switching to lower price discount cigarettes, smoking fewer cigarettes more intensively, and seeking out low-or untaxed cigarettes, such as those available on Indian reservations. Even if use did decline, the state would not see the revenue anticipated by these tax hikes.

Targeted excise taxes have proven to be unstable sources of revenue, and ultimately can cause a reduction in tax receipts. Increasing the state's reliance on tobacco taxes by increasing them by as much as \$1.56 per pack, as SB 2322 does, will not necessarily generate more revenue in the long term. In 2006, Chicago collected \$32.9 million in cigarette taxes. After two consecutive tax hikes, revenue fell to \$16.5 million in 2013. When Illinois raised the cigarette tax by \$1-per-pack in 2012, nearly doubling the state's tax rate to \$1.98 per pack, the tax delivered \$138 million less than expected. A reduction in tax receipts is a common occurrence amongst cities and states that attempt to discourage consumption with higher costs.

There have also been discussions about raising taxes on electronic cigarettes, by defining them as OTPs. Taking aim at e-cigarettes works at cross-purposes with efforts to cut down on the harm associated with smoking. **A number of studies have shown that e-cigarettes stand to improve health and prevent disease.** By choosing to "vape" e-cigarettes instead of smoking traditional tobacco, consumers get their nicotine fix without the combustion and smoke, which are responsible for many of the negative health effects of tobacco cigarettes.

With e-cigarettes, the free market has provided a solution to a problem that social engineers have not been able to address through stiff government regulations. **The imposition of tax hikes on innovative products that reduce smoking and people's dependence on tobacco cigarettes is misguided and will impede proven harm reduction methods.**

North Dakota's revised revenue forecast should be a wakeup call regarding the explosion in state spending over the past decade, with a budget that has tripled in size since 2003. **Tax hikes should be ruled out because the state doesn't have a revenue problem; it has a spending problem.** As such, I would urge you to reject HB 1421 and SB 2322 and additional efforts to raise taxes on e-cigarettes.

If you have any questions about ATR's position on this issue, please contact state affairs manager Paul Blair at 202-785-0266 or by email at pblair@atr.org.

Onward,

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