



**NATIONAL ASSOCIATION of TOBACCO OUTLETS, INC.**

February 25, 2025

**To:** House Finance Chair Abney and Members of the House Finance Committee  
c/o Christopher O'Brien, Committee Clerk

**Re:** HB5076 (Sections 8 and 9)-Opposed

**From:** David Spross, NATO Executive Director

The National Association of Tobacco Outlets (NATO) is a national trade association of over 66,000 members, including hundreds of retail store members across the State of Rhode Island. NATO and its Rhode Island member stores urge you to oppose those portions (Sections 8 and 9) of the budget bill, HB5076, which increase taxes on cigarettes by 11%. These portions of the budget bill should be stricken for many reasons:

- **The Existing Illicit Market Would Grow Exponentially.** Higher taxes will make supplying and selling illicit cigarettes more lucrative in Rhode Island. The difference in price between low tax states (not just neighboring states) and Rhode Island will be that much greater and will make the existing smuggling and illicit market even more enticing. Smuggling tobacco products is well-recognized. The Tax Foundation, for example, found that in 2022, nearly 20% of cigarettes consumed in Rhode Island had been smuggled in, the sixteenth highest rate in the country. This legislation will embolden these illegal sellers, who do not care if they sell to underage persons nor harm responsible Rhode Island retailers.
- **Rhode Island Could Lose Millions in Tax Revenue and Business Activity.** These tax increases will also drive cigarette sales out of Rhode Island to the internet or other states. All surrounding states already have lower tax rates, with Massachusetts having a rate that would be almost 30% lower than the new rate, and nearby New Hampshire a rate that would be about a third of the new rate, a discount of over \$32 per carton.
- **Economic Impact on Retailers Would Force Layoffs and Stores to Close.** Rhode Island retailers include tobacco-only stores, with virtually all revenue from tobacco sales including e-cigarettes, and convenience stores, with approximately 30% of in-store revenue from tobacco products. The lost tobacco product sales because of large tax disparities may force tobacco-only stores to close and may make the convenience store business model untenable, causing layoffs or closures.
- **Cigarette Taxes Disproportionately Impact Lower Income Citizens:** Cigarette taxes negatively impact those residents least able to afford it, as lower income citizens have higher rates of cigarette use compared to the rest of the population. A Gallup Poll released August 12, 2021, found 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%.) The tax increase would raise money to benefit all citizens of the State, yet it singles out a small cohort of citizens to pay the bill. Why put an extra burden on cigarette smokers, who are disproportionately less educated and lower income persons, when the State's use of this money will disproportionately benefit non-smokers?

- **Relying on Cigarette Taxes is Poor Long-Term Tax Policy:** A recent analysis by the CDC , the FDA, and the National Cancer Institute of the 2021 National Health Interview Survey (NHIS) data, *Cornelius, et al, Tobacco Product Use Among Adults – United States, 2021, MMWR, May 5, 2023*, showed that in 2021, only 11.5% of adults smoked cigarettes, “the lowest smoking prevalence recorded since 1965, . . . less than the 12% end-of-decade goal” set by the Department of Health and Human Services. A Gallup Poll released in August 2024 supported that conclusion, finding that 11% of adults currently smoked cigarettes, the lowest level Gallup had recorded. It is poor tax policy for the State to increasingly rely on a declining tax base to fund necessary programs, as the State would need to seek additional revenue sources as cigarette tax revenues decline going forward.
- **Cigarette Tax Increases are not Needed to Address Youth Smoking:** Youth smoking rates have declined for many years. According to a CDC and FDA analysis of data from the 2024 National Youth Tobacco survey, among all high school students, only 1.7% had smoked a cigarette in the previous month. Similarly, Jamal, A., et al, *Tobacco Product Use Among Middle and High School Students-National Youth Tobacco Survey, United States, 2024*, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, MMWR, October 17, 2024. Similarly, the HHS Substance Abuse and Mental Health Services Administration found in its report, *Key Substance Use and Mental Health Indicators in the United States: Results from the 2023 National Survey on Drug Use and Health*, July 2024, found that 1.3% of 12–17-year-olds had smoked a cigarette in the month prior to that survey. Youth smoking has dropped over 95% since it peaked nearly 30 years ago. The current rate of youth smoking is simply no reason to increase taxes on lower income, less educated adults.

For these reasons, we respectfully ask that the cigarette tax increase in the budget bill be removed. Thank you for considering the concerns of Rhode Island retailers.