

February 18, 2025

House Committee on Finance
Rhode Island House of Representatives
82 Smith Street
Providence, RI 02903

Subject: Opposition to Proposed \$0.50 Cigarette Tax Increase in SFY26 Budget

Dear Chairman Abney and Members of the House Committee on Finance,

Reynolds American Inc. (RAI) and its operating companies strongly oppose the proposed \$0.50 per pack cigarette excise tax increase in this year's budget proposal. This tax hike would raise Rhode Island's cigarette tax from \$4.50 to \$5.00 per pack, making it the third-highest cigarette tax in the nation and further burdening retailers, adult tobacco consumers, and the state's economy.

Rhode Island's History of Repeated Tax Hikes

Rhode Island has already increased its cigarette tax four times since 2012, with the most recent \$0.25 increase taking effect just last year (September 1, 2024):

- 9/1/2024 – \$4.50/pack (current tax)
- 8/1/2017 – \$4.25/pack
- 8/1/2015 – \$3.75/pack
- 7/1/2012 – \$3.50/pack

Rhode Island already has the highest cigarette tax in New England, surpassing Connecticut (\$4.35/pack), Massachusetts (\$3.51/pack), and New Hampshire (\$1.78/pack with no sales tax).

Rather than increasing revenue, these repeated tax hikes have driven cross-border purchases, illicit trade, and economic losses for Rhode Island retailers.

Economic Impact of the Proposed \$0.50 Tax Increase

According to a fresh economic analysis, the proposed tax increase will have devastating consequences for Rhode Island retailers and wholesalers:

- The state's cigarette sales are projected to decline by 6.8% (1.8 million fewer packs sold).
- Retailers and wholesalers are expected to lose \$5.5 million in gross profits.
- More than 1,000 retail and wholesale jobs are supported by in-state tobacco sales.¹ An estimated 65 retail and wholesale jobs could be lost.
- The total lost gross retail value from the tax hike is estimated at \$22.3 million.
- Non-tobacco products typically purchased alongside cigarettes (sundry product sales) are projected to decline by \$5 million.

Convenience stores will be hit hardest. Rhode Island's 420 convenience stores, which generate approximately \$220 million annually from cigarette sales, would face:

- A drop of 1.2 million packs in cigarette sales.
- An average loss of \$4,500 per store in gross profits.

¹ John Dunham and Associates, "Economic Contribution of the Tobacco Industry," New York, New York, 2019.

- A need to increase sales of other items by \$34,000 per store annually just to offset the losses from the tax hike.

Increased Smuggling and Cross-Border Sales

Rhode Island's high excise tax already drives significant cross-border purchases and illicit trade, and this proposed increase will make the problem worse.

- New Hampshire, with its \$1.78 per pack tax and no sales tax, offers Rhode Islanders savings of over \$40 per carton.
- Massachusetts' lower tax (\$3.51/pack) provides a \$14.90 per carton savings.
- Connecticut's lower tax (\$4.35/pack) allows savings of \$1.50 per carton.

New Hampshire's lower tax rate has already attracted a substantial number of out-of-state cigarette buyers. In FY2024, New Hampshire's per capita cigarette sales (62.4 packs per person) were nearly triple those of Rhode Island (23.8 packs per person), highlighting the scale of consumer migration.

Higher taxes also fuel illegal smuggling, which has been a persistent problem in Rhode Island:

- In 2011, authorities uncovered a \$5.7 million cigarette smuggling ring, representing 4.5% of the legal market.
- In 2013, the FBI dismantled a smuggling operation that cost Rhode Island over \$1 million in lost tax revenue.
- Tax-free tribal sales, such as those historically operated by the Narragansett tribe, present another challenge, further diverting tax revenue away from Rhode Island.²

Cigarette Tax Revenue Gains Are Temporary and Decline Over Time

Rhode Island's previous tax increases have failed to produce sustained revenue growth. After the last \$0.50 per pack increase in 2018, cigarette excise tax revenue initially rose by \$2.8 million in the first year but then fell below pre-hike levels in subsequent years.

This pattern mirrors past tax hikes, where short-term revenue gains were quickly erased by declines in in-state sales, increased cross-border shopping, and illicit trade.

Conclusion

Another cigarette tax increase will hurt Rhode Island businesses, cost jobs, and drive consumers across state lines—without delivering lasting revenue gains. Given that the state already increased the tax just last year, and has the second-highest cigarette tax in the Northeast, another hike is unnecessary and counterproductive.

We urge the committee to reject the proposed \$0.50 tax increase on cigarettes and consider policies that support Rhode Island retailers and prevent further loss of tax revenue to neighboring states.

Sincerely,



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² Paul Davis, "Narragansetts Still Angered by Smoke-Shop Raid on Tenth Anniversary," [The Providence Journal](#), 14 July 2023.