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Memorandum

Date: April 1, 2025

To: Members of the Rhode Island House Committee on Finance

From: Adam Hoffer, PhD, Director of Excise Taxation, Tax Foundation

Subject: Rhode Island HB5770 An Act Relating to Taxation – Cigarette, Other Tobacco Products, and Electronic Nicotine-Delivery System (ENDS) Products

Alternative tobacco products such as those that heat, but do not burn, tobacco (HTP or HNB products) offer the potential to improve public health. By heating but not burning the tobacco, HTPs allow users to consume nicotine contained in tobacco, but with fewer harmful chemicals than traditional combustible cigarettes. The FDA identified HTPs as a modified risk tobacco product (MRTP) in 2020, providing market authorization for HTP sales to begin.

Rhode Island's HB5770 would create a new tax rate for any product determined by the FDA to be a modified risk tobacco product. HNB products would be taxed at a discounted rate compared to traditional combustible cigarettes. The current tax rate on combustible cigarettes for smoking is \$3.75 per pack of 20 cigarettes; the rate for HNB sticks will be at a rate of \$0.94 per pack of 20 sticks—a 75 percent reduction.

Tax Foundation recently released a study providing a framework for taxing less harmful tobacco products like HNB products.¹

Alternative Tobacco Product Tax Rates to Optimize Harm Reduction

Product	Tax Rate Relative to Combustible Cigarettes
Very Low Nicotine Cigarettes	50% of Cigarette Tax Rate
<u>Loose Tobacco</u>	<u>(a 50% Reduction Compared to Cigarettes)</u>
Heated Tobacco Products	25% of Cigarette Tax Rate
<u>Moist Tobacco</u>	<u>(a 75% Reduction Compared to Cigarettes)</u>
E-Cigarettes and Vaping Products	10% of Cigarette Tax Rate
<u>Modern Oral Tobacco</u>	<u>(a 90% Reduction Compared to Cigarettes)</u>
Nicotine Replacement Therapies	0% of Cigarette Tax Rate
<u>(Gums, Patches, Lozenges)</u>	<u>(a 100% Reduction Compared to Cigarettes)</u>

¹ Adam Hoffer, "How Should Alternative Tobacco Products Be Taxed?," Tax Foundation, Aug. 24, 2023, <https://taxfoundation.org/research/all/federal/taxing-alternative-tobacco-products/>.

That report suggests that because of the public health benefits that come from smokers switching from combustible cigarettes to HNB products, HNB products should have a reduced rate upwards of 75 percent compared to traditional cigarettes. Vaping products and modern oral tobacco should have a reduced rate upwards of 90 percent compared to traditional cigarettes.

Adjusting Rhode Island's tax rate on HNB products to \$0.90 per pack of 20 sticks aligns with the best practices for taxing alternative tobacco products. Legislatures are charged with the difficult task of striking the right balance: they often simultaneously seek to discourage the take-up of products by non-smokers, encourage harm reduction with smokers switching to vapor products, and raise enough revenue to fund public programs. As you consider these matters, we are happy to be a resource and would be delighted to provide you with more research on this topic. Thank you for your time.