OPINION EXCHANGE

The last thing ravaged small businesses need? Walz's tobacco taxes

Corner stores are already struggling amid the pandemic; this won't help.

By Lance Klatt | FEBRUARY 14, 2021 — 6:00PM

Gov. Tim Walz's claim that his fiscal year 2022-23 budget will support small businesses rings hollow for convenience stores, gas stations and corner markets.

Our association represents hundreds of retailers that would not be economically supported by the governor's budget but, rather, financially distressed.

With many businesses requiring employees to work from home, plus historically high unemployment, these essential retail businesses have incurred sales losses of up to 45% in gasoline and 20% of in-store sales. They have worked hard to survive, but the governor's budget may well force more of them to lay off employees and consider closing their stores.

Why? Because Walz proposes to raise state cigarette and moist snuff taxes by 33% and assess new taxes on electronic cigarettes. Minnesota currently has the ninth-highest cigarette tax in the country at $3.04 per pack. The governor wants to penalize retailers and consumers again by raising the tax another $1 per pack.

FILE - This Nov. 25, 2019 photo shows IQOS heated cigarette heatsticks displayed in an IQOS store in Richmond, Va. Marlboro

At $4.04 per pack, Minnesota's cigarette tax rate would move up to the fourth-highest nationwide.

Minnesota would truly become an island surrounded by states with significantly lower taxes. If the $4.04 per pack tax were enacted, Minnesotans could save a significant amount on a carton of cigarettes by purchasing them in neighboring states.

The savings would be $36 in North Dakota, $25.10 in South Dakota, $26.80 in Iowa and $15.20 in Wisconsin. This sizable difference would put Minnesota retail stores located near the state's borders at a severe competitive disadvantage.

Moreover, an illicit market in cigarettes and other tobacco products already exists in Minnesota due to the state's high tax rates and would only expand with higher rates. According to a Mackinac Center for Public Policy study, Minnesota ranks 13th-highest among all states for inbound and cross border cigarette smuggling.

Cigarette taxes are one of the most regressive forms of taxation a government can impose. The governor's proposed tax increases would be financially devastating to many lower-income Minnesotans.

There is also a double standard in "sin" product taxation. Walz argues that since cigarette taxes were last raised in 2013, it's time to raise them again.

Yet the last time Minnesota's taxes on beer, wine and liquor were raised was 33 years ago, in 1988. The beer tax was raised two cents to 15 cents per gallon, wine is taxed at 30 cents per gallon and liquor is taxed at $5.03 per gallon.

A person would have to buy 286 bottles of beer or 67 bottles of wine to pay the same $4.04 he'd pay in tax on one pack of cigarettes.

The governor went on to explain that the small minority of Minnesotans who smoke should be taxed more because "We use the tax code to incentivize or disincentivize behaviors."

The Health Department reports that Minnesota has one of the highest rates of binge drinking in the country and that 17% of ninth- and 11th-graders currently consume alcohol (rates much higher than those for youths who smoke or use smokeless tobacco).

So, the question becomes, shouldn't the governor want to impact the behavior of youths and prevent them from drinking by significantly raising taxes on beer, wine and liquor? Is it somehow politically acceptable to overtax a small minority of Minnesotans who buy tobacco products and not tax the majority of Minnesotans who buy beer, wine and liquor?

Retailers do their part every day to prevent the sale of tobacco to youths. Burdening them and their customers with the fourth-highest cigarette tax in the country would cost jobs and likely force stores, especially those near state borders, to close. What Minnesota's businesses need now is support, not higher taxes that would only penalize retailers and consumers.

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