

MINNESOTA WHOLESALE MARKETERS ASSOCIATION

March 8, 2021

Chairman Mike Freiberg
House Preventative Health Policy Division
Minnesota House of Representatives
St. Paul, MN 55155

Subject: House File 1721 (Cigarette, Tobacco and Electronic Cigarette Tax Increases)

Dear Chair Freiberg and Members of the House Preventative Health Policy Division:

The Minnesota Wholesale Marketers Association (MWMA) is a state trade organization that represents wholesale distribution businesses, which sell groceries, snacks, beverages, paper products, and tobacco products to retail stores across the state. The wholesale members of the MWMA urge you to oppose the tax increases in House File 1721 on cigarettes, tobacco products and electronic cigarettes.

Highest Tax Ranking: The proposed tax increases of \$1.50 per pack on cigarettes which equals \$4.54 per pack or \$45.40 per carton, 97% on tobacco products, 97% or \$5.00 per premium cigar, and 97% on electronic cigarette and vapor devices and would result in Minnesota being ranked as having the highest cigarette, tobacco product, cigar, and electronic cigarette tax nationwide. These tax rates would have devastating consequences to wholesalers and retailers with little or no positive health impact.

Cross-Border Purchases, Smuggling, and Internet Sources: A Mackinac Center for Public Policy study currently ranks Minnesota as the 5th highest state for cigarette smuggling. Another \$1.50 per pack tax increase will cause the cigarette smuggling ranking to be even higher, if not the highest nationwide, and force even more Minnesotans to cross state borders border to purchase cigarettes, tobacco products, cigars, and electronic cigarettes in neighboring states.

If the \$1.50 cigarette tax is enacted, Minnesotans would save \$51 on a carton of cigarettes in North Dakota, \$40 a carton in South Dakota, \$42 a carton in Iowa, and \$30 a carton in Wisconsin. In fact, the Mackinac Center for Public Policy's study concludes that 36% of all cigarettes smoked in Minnesota are obtained from sources outside the state. Moreover, the excise tax on a box of premium cigars would range from \$125 for a box of 25 cigars to \$250 for a box of 50 cigars. This extremely high tax rate would cause Minnesotans to order premium cigars over the Internet to completely avoid paying any state excise tax on premium cigars.

Health Benefit Would Be Minimal: These high tax rates would force Minnesotans who buy tobacco products to seek out other sources. Rather than necessarily quit using these products, Minnesota residents will simply look to illicit sellers, drive to a neighboring state, or order tobacco products over the Internet. That is, Minnesotans will continue using tobacco products resulting in little to no overall health benefit.

Competitive Disadvantage and Covid-19: These highest excise tax rates would cause wholesalers and their Minnesota retail accounts to be at a severe competitive disadvantage to both retailers in other states and Internet web-based sellers. During the COVID pandemic, retail sales of gasoline and in-store products have declined significantly. At the same time, our wholesale members and their retail accounts have worked very hard to remain open, but the proposed tax increases carry a heavy burden.

Employee Layoffs and Store Closures: This financial burden of the highest taxes on cigarettes, tobacco products, cigars, and electronic cigarettes would lead to employee layoffs and store closures because Minnesota's highest tax ranking nationwide would magnify the illicit market, smuggling, cross border purchases, and Internet sourcing. The average convenience store business model relies on gasoline sales at the pump plus cigarette and tobacco sales inside the store in order to remain profitable and open for business. Such large tax increases will have a very negative impact on sales placing employee jobs and the continued operation of stores in jeopardy.

For all of these reasons, we urge you to not increase taxes on wholesalers, retailers and consumers.

Sincerely,

Thomas A. Briant

Executive Director and Legal Counsel