

Coalition of Neighborhood Retailers



March 9, 2021

Chairman Mike Freiberg
Members of the 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 undersigned retail trade associations represent thousands of retail stores across the State of Minnesota that sell tobacco products. Our associations and member stores urge you to not support House File 1721, which would significantly raise cigarette, tobacco product, cigar, and electronic cigarette tax rates without securing a positive health benefit. Our concerns are explained below.

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 rates 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 make 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.

Health Benefit Would Be Minimal: These high tax rates would force Minnesotans who buy tobacco products to seek out other sources. Such high tax rates would not result in a majority of Minnesotans to cease buying and using these products. Rather, the end result is that the health-related purposes of the bill would be undermined because adults will continue to use these products, an extensive illicit market will proliferate, and cross border purchases will escalate. That is, the adoption of these tax increases would be

problematic from a public health policy standpoint because the outcome would be directly contrary to the underlying goals of House File 1721.

Competitive Disadvantage and Covid-19: With the state having the number one ranked excise tax rates in the country, Minnesota retailers would 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 retail members have worked very hard to remain open, but the proposed tax increases carry a financial burden that is simply too heavy to bear.

Employee Layoffs and Store Closures: The 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 tax ranking would magnify the illicit market, 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. However, such large tax increases will have a very negative impact on sales placing employee jobs at risk and the continued operation of stores in jeopardy.

Thank you for considering our concerns.

Sincerely,

Lance Klatt

Executive Director
Minnesota Service Station Association

Tim Gross

Executive Director
Minnesota Petroleum Marketers Association

Jamie Pfuhl

President
Minnesota Grocers Association

Bruce Nustad

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