

**Testimony before the Minnesota House Committee on Taxes
Regarding Increasing the Tax on Tobacco and Vapor Products**

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Chairwoman Marquat and Members of the Committee,

Thank you for your time today to discuss the issue of increasing the state excise tax on tobacco and vapor products. My name is Lindsey Stroud and I am a Policy Analyst with the Taxpayers Protection Alliance (TPA). TPA is a non-profit, non-partisan organization dedicated to educating the public through the research, analysis and dissemination of information on the government's effects on the economy.

As the nation continues to deal with the economic impact of COVID-19, many lawmakers are considering increasing excise taxes on tobacco and vapor products. Although, excise tax increases on such products do result in an immediate surge in revenue, sin taxes are unreliable and decrease over time. Further, lawmakers should refrain from increasing taxes on tobacco harm reduction products – including heat-not-burn and electronic cigarettes and vapor products – as such products are significantly less harmful than combustible cigarettes and have helped millions of American adults quit smoking.

Tobacco and Vapor Product Use Among Minnesota Youth

The most recent data on youth e-cigarette use in Minnesota comes from the 2019 Minnesota Student Survey (MSS).¹ In 2019, according to the MSS, 89 percent of 8th graders, 84 percent of 9th graders and 74 percent of 11th graders reported *not using* an e-cigarette or vapor product in the 30 days prior to the survey. Further, only 7 percent of 11th graders, 2 percent of 9th graders, and 1 percent of 8th graders reported daily e-cigarette use.

It is worthy to note that Minnesota combustible cigarette use is at all-time lows. According to the MSS, in 2019, 98 percent, 97 percent, and 95 percent of 8th, 9th, and 11th graders reported not smoking a cigarette in the 30 days prior to the survey. Further, only 1 percent of 11th graders and 0 percent of 8th and 9th graders, reported daily cigarette use. This is a significant decline from 1992, when 31.3 percent of 12th graders, 19.3 percent of 9th graders and 5 percent of 8th graders reported using combustible cigarettes in the 30 days before the survey.

Tobacco Economics 101: Minnesota

In 2019, 14.6 percent of adults in Minnesota smoked tobacco cigarettes, amounting to 633,125 smokers in 2019.² When figuring a pack-per-day, over 4.6 billion cigarettes were smoked in 2019 by Minnesota, or about 12.7 million per day.³

In 2019, Minnesota imposed a \$3.04 state excise tax on a pack of cigarettes.⁴ In 2019, the Gopher State collected \$702.5 million in cigarette excise taxes, when figuring for a pack-a-day habit. This amounts to \$1,109.60 per smoker per year.

Minnesota spent \$17.3 million in state funding on tobacco control programs, including education, cessation, and prevention. This amounts to \$27.32 per-smoker, and \$13.28 per resident under age 18.

Low Income Minnesotans More Impacted by Tobacco and Vapor Taxes

An increase on tobacco and vapor products would unfairly burden lower income Minnesotans. Excise taxes are inherently regressive and tend to burden lower income persons. For example, a Cato Journal article found from 2010 to 2011, “smokers earning less than \$30,000 per year spent 14.2 percent of their household income on cigarettes, compared to 4.3 percent for smokers earning between \$30,000 and \$59,999 and 2 percent for smokers earning more than \$60,000.”⁵

In Minnesota, among current adult smokers, 27.3 percent reported annual incomes of less than \$15,000 and 23.5 percent of current smokers reported earning between \$15,000 and \$24,999 per year.⁶ Despite four different tax increases, the percentage of smokers earning incomes of \$24,999 or less has remained relatively stable.

Indeed, among adult Minnesotan smokers with incomes of less than \$15,000 per year, smoking actually increased by 2.2 percent from 1995, when 26.7 percent of current smokers earning less than \$15,000. Indeed, higher incomes were associated with greater declines in smoking rates. For example, smoking rates among Minnesotan adults earning \$50,000 or more decreased by 34.8 percent, from 16.1 percent of smokers in 1995 to 10.5 percent in 2019.

Vapor Economics 101: Minnesota

Electronic cigarettes and vapor products are not only a harm reduction tool for hundreds of thousands of smokers in the Gopher State, they’re also an economic boon.

IN 2018, according to the Vapor Technology Association, the industry created 1,152 direct vaping-related jobs, including manufacturing, retail, and wholesale jobs in Minnesota, which generated \$44 million in wages alone.⁷ Moreover, the industry has created hundreds of secondary jobs in the Gopher State, bringing the total economic impact in 2018 to \$336,366,200. In the same year, Minnesota received more than \$20 million in state taxes attributable to the vaping industry. These figures do not include sales in convenience stores, which sell vapor products including disposables and prefilled cartridges. In 2016, average national sales of these products eclipsed \$2.6 million.⁸

Switching from combustible cigarettes to electronic cigarettes and vapor products will also reduce smoking-related health issues and save persons and states money. WalletHub estimated the “true cost of smoking” including “...cost of a cigarette pack per day, health care

expenditures, income losses and other costs.”⁹ WalletHub estimated the true cost for smoker in Minnesota to be \$59,336 per-smoker per-year.

In 1995, 20.5 percent of Minnesota adults smoked combustible cigarettes, amounting to approximately 699,921 adults.¹⁰ Among all adults, 17.4 percent (594,079 adults) reported smoking every day in 1995. In 2019, 14.6 percent of adults in the Gopher State were current smokers, amounting to 633,125 smokers. Further, 10.5 percent of Minnesota adults (455,330 adults) were daily smokers in 2019.

Among Minnesota adults, current smoking decreased by 28.8 percent between 1995 and 2019. Moreover, there are there are an estimated 255,852 fewer smokers in 2019, compared to 1995, and 299,217 fewer daily smokers. Using the WalletHub figures, this reduction represents nearly \$15.2 billion in yearly savings.

Excise Taxes Are Unreliable Sources of Revenue

Existing excise taxes are unreliable revenue sources. Cigarette tax increases result in long-term revenue shortfalls. From 2001 to 2011, “revenue projections were met in only 29 of 101 cases where cigarette/tobacco taxes were increased,” according to the National Taxpayer Union Foundation.¹¹ Moreover, a decline in cigarette consumption caused cigarette tax revenues “to drop by an average of about 1 percent across all states from 2008 to 2016,” according to a report by Pew Charitable Trusts.¹² A 2020 report by the Tax Foundation noted that cigarette tax revenue has fallen in all states and considers cigarette tax revenue to be “so unstable.”¹³

In Minnesota, cigarette taxes have been increased four times since 1999. In 2005, the state increased the excise tax on pack of cigarettes by \$0.75, bringing the total tax to \$1.23. Although this led to an immediate 143.9 percent increase in cigarette tax revenue, cigarette tax revenue declined on average by 2.4 percent annually between 2007 and 2012. Indeed, in 2012, Minnesota collected \$377.2 million in cigarette tax revenue, a 17.8 percent decline from 2008’s \$408.6 million in revenue.

In 2013, the state increased the cigarette tax again, by \$1.60, to \$2.83 per pack. Again, this led to an immediate 53.3 percent increase in revenue. But, since 2015, cigarette tax revenue has decreased on average by 2.46 percent annually. Further, in 2019, the Gopher State collected \$499.4 million in cigarette tax revenue, a 11.9 percent decrease from 2014’s \$566.7 million revenue.

(See supplemental graph 1.1)

Wasted Tobacco Dollars

Deeply problematic with the proposed legislation is the fact that Minnesota spends very little on tobacco control, including education and prevention.

In 1998, Minnesota and “Blue Cross and Blue Shield of Minnesota settled their lawsuit against several companies and related organizations,” reaching Minnesota’s Tobacco Settlement (MTS). Under the settlement, Minnesota receives annual payments – in perpetuity – from tobacco companies. Between 1999 and 2019, the Gopher State has received more than \$4.293 billion in MTS payments.

During the same period, Minnesota has allocated only \$460.7 million in state funding on tobacco control programs.¹⁴ This is only 10.7 percent of MTS payments and only 6.1 percent of what the state collected in cigarette excise payments.¹⁵

(See supplemental graph 1.2)

E-Cigarettes and Tobacco Harm Reduction

The evidence of harm associated with combustible cigarettes has been understood since the 1964 U.S. Surgeon General’s Report that smoking causes cancer. Research overwhelmingly shows the smoke created by the burning of tobacco, rather than the nicotine, produces the harmful chemicals found in combustible cigarettes.¹⁶ There are an estimated 600 ingredients in each tobacco cigarette, and “when burned, [they] create more than 7,000 chemicals.”¹⁷ As a result of these chemicals, cigarette smoking is directly linked to cardiovascular and respiratory diseases, numerous types of cancer, and increases in other health risks among the smoking population.¹⁸

For decades, policymakers and public health officials looking to reduce smoking rates have relied on strategies such as emphasizing the possibility of death related to tobacco use and implementing tobacco-related restrictions and taxes to motivate smokers to quit using cigarettes. However, there are much more effective ways to reduce tobacco use than relying on government mandates and “quit or die” appeals.

During the past 30 years, the tobacco harm reduction (THR) approach has successfully helped millions of smokers transition to less-harmful alternatives. THRs include effective nicotine delivery systems, such as smokeless tobacco, snus, electronic cigarettes (e-cigarettes), and vaping. E-cigarettes and vaping devices have emerged as especially powerful THR tools, helping nearly three million U.S. adults quit smoking from 2007 to 2015.

Indeed, an estimated 10.8 million American adults were using electronic cigarettes and vapor products in 2016.¹⁹ Of the 10.8 million, only 15 percent, or 1.6 million adults, were never-smokers, indicating that e-cigarettes are overwhelmingly used by current and/or former smokers.

E-cigarettes were first introduced in the United States in 2007 by Ruyan, a Chinese manufacturer.²⁰ Soon after their introduction, Ruyan and other brands began to offer the first generation of e-cigarettes, called “cigalikes.” These devices provide users with an experience that simulates smoking traditional tobacco cigarettes. Cig-alikes are typically composed of three parts: a cartridge that contains an e-liquid, with or without nicotine; an atomizer to heat the e-liquid to vapor; and a battery.

In later years, manufacturers added second-generation tank systems to e-cigarette products, followed by larger third-generation personal vaporizers, which vape users commonly call “mods.”²¹ These devices can either be closed or open systems.

Closed systems, often referred to as “pod systems,” contain a disposable cartridge that is discarded after consumption. Open systems contain a tank that users can refill with e-liquid. Both closed and open systems utilize the same three primary parts included in cigalikes—a liquid, an atomizer with a heating element, and a battery— as well as other electronic parts. Unlike cigalikes, “mods” allow users to manage flavorings and the amount of vapor produced by controlling the temperature that heats the e-liquid.

Mods also permit consumers to control nicotine levels. Current nicotine levels in e-liquids range from zero to greater than 50 milligrams per milliliter (mL).²² Many users have reported reducing their nicotine concentration levels after using vaping devices for a prolonged period, indicating nicotine is not the only reason people choose to vape.

Health Effects of Electronic Cigarettes and Vapor Products

Despite recent media reports, e-cigarettes are significantly less harmful than combustible cigarettes. Public health statements on the harms of e-cigarettes include:

Public Health England: In 2015, Public Health England, a leading health agency in the United Kingdom and similar to the FDA found “that using [e-cigarettes are] around 95% safer than smoking,” and that their use “could help reducing smoking related disease, death and health inequalities.”²³ In 2018, the agency reiterated their findings, finding vaping to be “at least 95% less harmful than smoking.”²⁴

The Royal College of Physicians: In 2016, the Royal College of Physicians found the use of e-cigarettes and vaping devices “unlikely to exceed 5% of the risk of harm from smoking tobacco.”²⁵ The Royal College of Physicians (RCP) is another United Kingdom-based public health organization, and the same public group the United States relied on for its 1964 Surgeon General’s report on smoking and health.

The National Academies of Sciences, Engineering, and Medicine: In January 2018, the academy noted “using current generation e-cigarettes is less harmful than smoking.”²⁶

A 2017 study in *BMJ*’s peer-reviewed journal *Tobacco Control* examined health outcomes using “a strategy of switching cigarette smokers to e-cigarette use ... in the USA to accelerate tobacco control progress.”²⁷ The authors concluded that replacing e-cigarettes “for tobacco cigarettes would result in an estimated 6.6 million fewer deaths and more than 86 million fewer life-years lost.”

An October 2020 review in the *Cochrane Library Database of Systematic Reviews* analyzed 50 completed studies which had been published up until January 2020 and represented over 12,4000 participants.

The authors found that there was “moderate-certainty evidence, limited by imprecision, that quit rates were higher in people randomized to nicotine [e-cigarettes] than in those randomized to nicotine replacement therapy.” The authors found that e-cigarette use translated “to an additional four successful quitters per 100.” The authors also found higher quit rates in participants that had used e-cigarettes containing nicotine, compared to the participants that had not used nicotine.

Notably, the authors found that for “every 100 people using nicotine e-cigarettes to stop smoking, 10 might successfully stop, compared with only six of 100 people using nicotine replacement therapy or nicotine-free e-cigarettes.”

The substitution of e-cigarettes for combustible cigarettes could also save the state in health care costs.

It is well known that Medicaid recipients smoke at rates of twice the average of privately insured persons, according to the Centers for Disease Control and Prevention (CDC). In 2013, “smoking-related diseases cost Medicaid programs an average of \$833 million per state.”²⁸

A 2015 policy analysis by State Budget Solutions examined electronic cigarettes’ effect on Medicaid spending. The author estimated Medicaid savings could have amounted to \$48 billion in 2012 if e-cigarettes had been adopted in place of combustible tobacco cigarettes by all Medicaid recipients who currently consume these products.²⁹

A 2017 study by R Street Institute examined the financial impact to Medicaid costs that would occur should a large number of current Medicaid recipients switch from combustible cigarettes to e-cigarettes or vaping devices. The author used a sample size of “1% of smokers [within] demographic groups permanently” switching. In this analysis, the author estimates Medicaid savings “will be approximately \$2.8 billion per 1 percent of enrollees,” over the next 25 years.³⁰

FDA Recognizes Tobacco Harm Reduction Potential of Heat-Not-Burn Products

A novel tobacco harm reduction product are heat-not-burn (HNB) tobacco products. HNB technology is a unique tobacco harm reduction tool because it has the “ability to regulate and distill flavor and nicotine at lower temperatures.”³¹ Several brands have been introduced and tested in various international markets, but only two brands are currently allowed to market in the United States including RJ Reynolds’ Eclipse tobacco and menthol flavored HNB products,³² and Philip Morris’ IQOS devices, available in both tobacco and menthol flavor.³³

IQOS is an electronic device that heats a “HeatStick” – a small stick containing tobacco that a user places into the device and discards after use. The IQOS device heats the stick with no combustion, which reduces the amount of toxins a normal cigarette user would be exposed to.

In July, 2020, the FDA authorized IQOS to be marketed as a *modified risk tobacco product*.³⁴ In the agency's order, FDA is allowing IQOS to market the specific products with:

“AVAILABLE EVIDENCE TO DATE:

- The IQOS system heats tobacco but does not burn it.
- This significantly reduces the product of harmful and potentially harmful chemicals.
- Scientific studies have shown that switching completely from conventional cigarettes to the IQOS system significantly reduces your body's exposure to harmful or potentially harmful chemicals.”

Currently, IQOS is only available for sale in a very limited markets that includes three metropolitan areas including Atlanta, GA, Charlotte, NC, and Richmond, VA.³⁵ In a January conference call, Philip Morris USA stated that they will be “expanding the retail distribution of HeatSticks to about 1,000 stores.”

As a novel tobacco product, many current cigarette users are unaware of the product. Nonetheless, HNB are still an important tobacco harm reduction tool and have been widely successful in other markets, specifically Japan. Indeed, around 3.1 million people in Japan currently use a specific-brand HNB product.³⁶

Studies on various products have also found a reduced harm from selected HNB products.

A 2016 study published in *Toxicology in Vitro* provided a “comparative assessment of the biological impact of heated tobacco aerosol from the tobacco heating system ... and smoke from a combustible cigarette.”³⁷ The study examined bronchial epithelial cultures exposed to Philip Morris International's iQOS vapor and found significant reductions in biological markers compared to when cigarette smoke is regularly inhaled.

A 2018 literature review of HNB studies found that “HNB delivered up to 83% of nicotine and reduced levels of harmful and potentially harmful toxicants by at least 62% and particulate matter by at least 75%.”³⁸

Taxes on E-Cigarettes Unlikely to Deter Youth Use

Many lawmakers have attempted to thwart youth use of electronic cigarettes and vapor products by apply sin taxes to such products. Although addressing youth use is laudable, many youths in North Dakota are *not regularly using* e-cigarettes. Further, data from youth surveys indicate that excise taxes don't reduce youth use of vapor products.

In 2019, 33.1 percent of North Dakota high school students reported using a vapor product on at least one occasion in the 30 days prior and only 12.1 percent reported frequent use – or using 20

or more days.³⁹ According to national data, between 2019 and 2020, youth use of e-cigarettes decreased by 33.3 percent.⁴⁰

Further, there is no data to indicate that youth use of vapor products decreased after implementing taxes on e-cigarettes and indeed, youth vaping has actually increased after other states implemented vapor taxes. Tobacco Harm Reduction 101 examined the effects of vapor taxes in six states. From 2017 to 2019, current e-cigarette use among high school students increased in five states – even with excise taxes imposed on such products.

Kansas Vapor Tax: \$0.05 per milliliter

Kansas' tax on e-cigarettes and vapor products went into effect July 1, 2017.⁴¹

According to Kansas's YRBSS, in 2017, 34.8 percent and 10.6 percent of high school students reported ever and current e-cigarette product use, respectively.⁴²

In 2019, ever-use increased by 28.4 percent, to 48.6 percent of Kansas high school students and current e-cigarette use increased by 51.8 percent, to 22 percent of high school students using an e-cigarette on at least one occasion in the 30 days prior.

Louisiana Vapor Tax: \$0.05 per milliliter

Louisiana's tax on e-cigarettes and vapor products went into effect August 1, 2015.⁴³

According to Louisiana's YRBSS, in 2017, 45.1 percent and 12.2 percent of high school students reported ever and current e-cigarette product use, respectively.⁴⁴

In 2019, ever-use increased by 13.3 percent, to 52 percent of Louisiana high school students and current e-cigarette use increased by 46.7 percent, to 22.9 percent of high school students using an e-cigarette at least one occasion in the 30 days prior.

North Carolina Vapor Tax: \$0.05 per milliliter

North Carolina's tax on e-cigarettes and vapor products went into effect July 1, 2015.⁴⁵

According to North Carolina's YRBSS, in 2015, 49.4 percent and 29.6 percent of high school students reported ever and current e-cigarette product use, respectively. In 2017, ever-use decreased by 12 percent, to 44.1 percent of North Carolina high school students and current e-cigarette use decreased by 33.9 percent, to 22.1 percent of high school students using an e-cigarette in the last 30 days.⁴⁶

In 2019, 52.4 percent of high school students reporting having ever used an e-cigarette, this is a 15.8 percent increase from 2017, and a 5.7 percent increase from 2015 rates. Regarding current e-cigarette use, in 2019, 35.5 percent of North Carolina high school students reported using an e-cigarette on at least one occasion in the 30 days prior, this is a 37.7 percent increase from 2017 rates, and a 16.6 percent increase from 2015 rates.

Pennsylvania Vapor Tax: 40 percent of purchase price

Pennsylvania's tax on e-cigarettes and vapor products went into effect October 1, 2016.⁴⁷

According to Pennsylvania's YRBSS, in 2015 40.8 percent and 23.1 percent of high school students reported ever and current e-cigarette product use, respectively. In 2017, ever-use increased by 2.4 percent, to 41.8 percent of Pennsylvania high school students, and current e-cigarette use decreased by 104 percent, to 11.3 percent of high school students using an e-cigarette in the last 30 days.⁴⁸

In 2019, 52.6 percent of high school students reporting having ever used an e-cigarette, this is a 20.5 percent increase from 2017, and a 22.4 percent increase from 2015 rates. Regarding current e-cigarette use, in 2019, 24.4 percent of Pennsylvania high school students reported using an e-cigarette on at least one occasion in the 30 days prior, this is a 53.7 percent increase from 2017 rates, and a 5.3 percent increase from 2015 rates.

West Virginia Vapor Tax: \$0.075 per milliliter

West Virginia's tax on e-cigarettes and vapor products went into effect July 1, 2016.⁴⁹

According to West Virginia's YRBSS, in 2015, 49.1 percent and 31.2 percent of high school students reported ever and current e-cigarette product use, respectively. In 2017, ever-use decreased by 10.6 percent, to 44.4 percent of West Virginia high school students, and current e-cigarette use decreased by 118.2 percent, to 14.3 percent of high school students using an e-cigarette in the last 30 days.⁵⁰

In 2019, 62.4 percent of high school students reporting having ever used an e-cigarette, this is a 28.8 percent increase from 2017, and a 21.3 percent increase from 2015 rates. Regarding current e-cigarette use, in 2019, 35.7 percent of West Virginia's high school students reported using an e-cigarette on at least one occasion in the 30 days prior, this is a 59.9 percent increase from 2017 rates, and a 12.6 percent increase from 2015 rates.

Conclusion and Policy Implications

- Excise taxes on tobacco and vapor products are regressive and unfairly burden low-income persons. In 2019, 50.8 percent of adult smokers in Minnesota reported earning incomes of \$24,999 or less. Indeed, over one-quarter (27.3 percent) of adult smokers in Minnesota earned less than \$15,000 a year in 2019.
- Cigarette taxes are unreliable sources of revenue. Since 2015, cigarette tax revenue has decreased, on average, by 2.46 percent annually.
- Minnesota spends very little of existing tobacco and vapor products taxes on programs to prevent youth use and help adults quit. Between 1999 and 2019, the Gopher State allocated \$460.7 million toward tobacco control programs, which is only 3.9 percent of the tax revenues and tobacco tax settlement payments in the same time period.

- State lawmakers should refrain from enacting excise taxes on tobacco products that the FDA have deemed as *modified risk tobacco products*. In this distinction, the FDA recognizes the potential for such products to help adults quit smoking cigarettes, as well as reduce harm exposure.

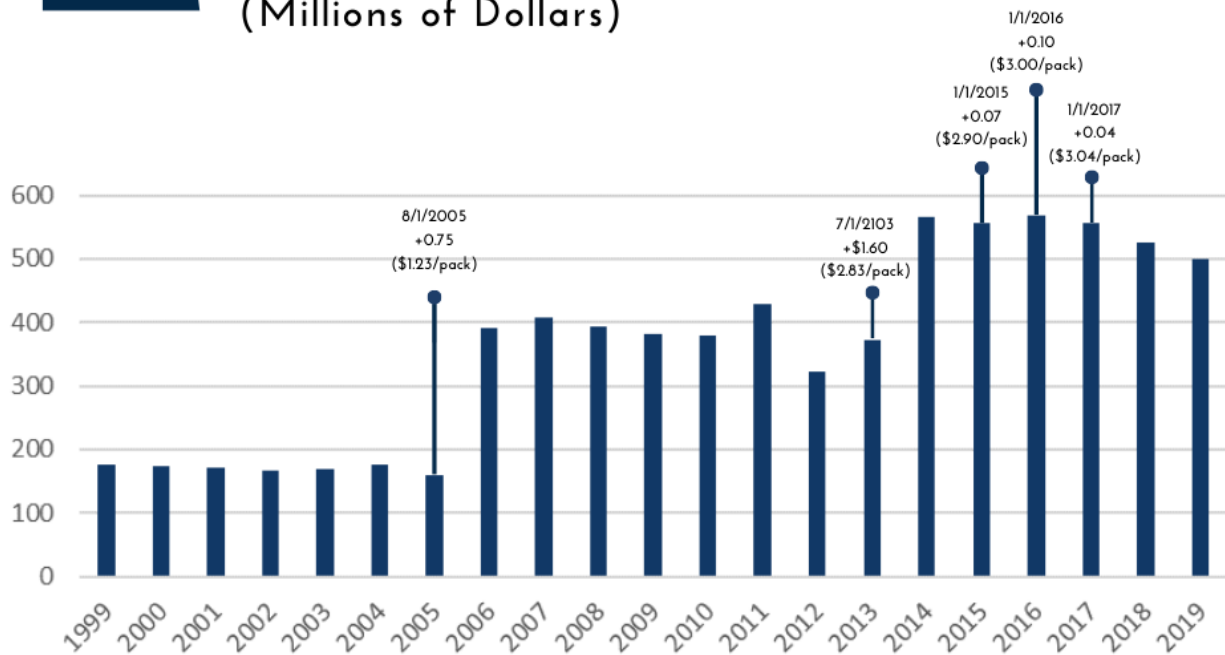
Supplemental Graphs:

1.1



MINNESOTA

**Cigarette Tax Revenue &
Cigarette Tax Increases
(Millions of Dollars)**



**FY 2011 revenues and volume reflect abnormal purchase of stamps at year's end due to budget-induced stamp shortage in FY 2012.

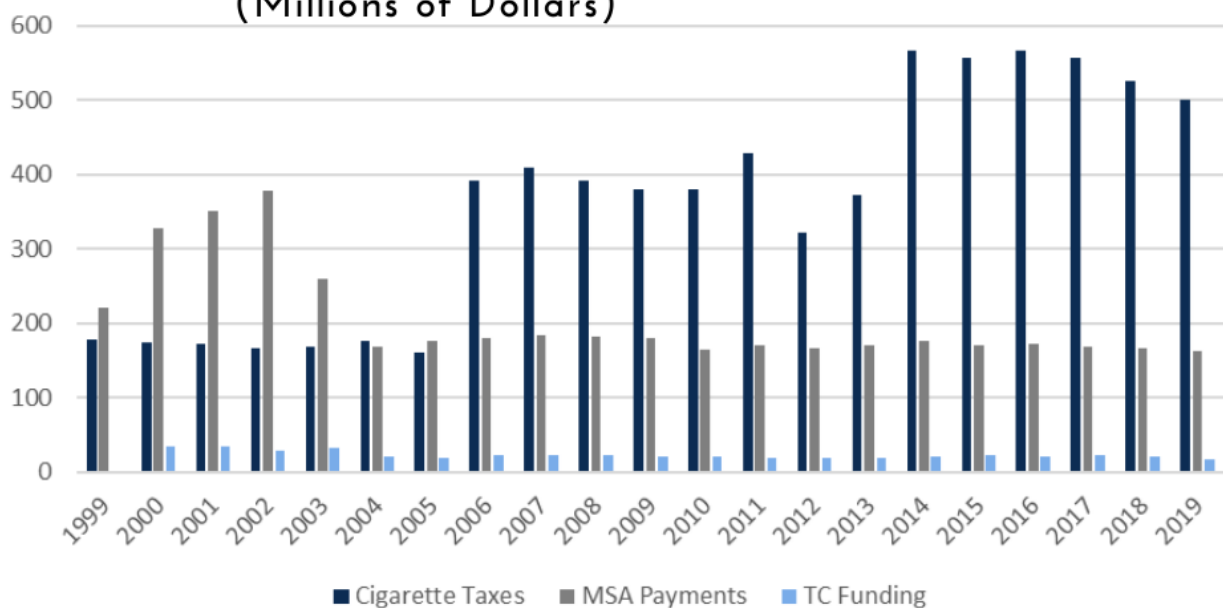
Sources: Campaign for Tobacco-Free Kids, Orzechowski and Walker
For more information, contact Lindsey Stroud at lindsey@protectingtaxpayers.org

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MINNESOTA

Master Settlement Payments,
Tobacco Taxes & Tobacco
Control Funding
(Millions of Dollars)



Sources: Campaign for Tobacco-Free Kids, Orzechowski and Walker
For more information, contact Lindsey Stroud at lindsey@protectingtaxpayers.org

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TOBACCO & VAPING 101: MINNESOTA



BY: LINDSEY STROUD

Combustible cigarette use among American youth and adults has reached all-time lows, but many policymakers are concerned with the increased use of electronic cigarettes and vapor products, especially among youth and young adults.

This paper examines smoking rates among adults in the Gopher State, youth use of tobacco and vapor products, and the effectiveness of tobacco settlement payments, taxes, and vapor products on reducing combustible cigarette use.

TAXPAYERS PROTECTION ALLIANCE

TABLE OF CONTENTS

Adult Smoking Rates • P. 2

Youth Tobacco and Vapor
Rates • P. 2

Cigarette Tax Revenue • P. 3

Master Settlement Agreement
• P. 3

Tobacco Control Funding • P. 4

E-Cigarettes' Effectiveness in
Minnesota • P. 4

Policy Implications • P. 5

Supplemental Graphs • P. 6

References • P. 7

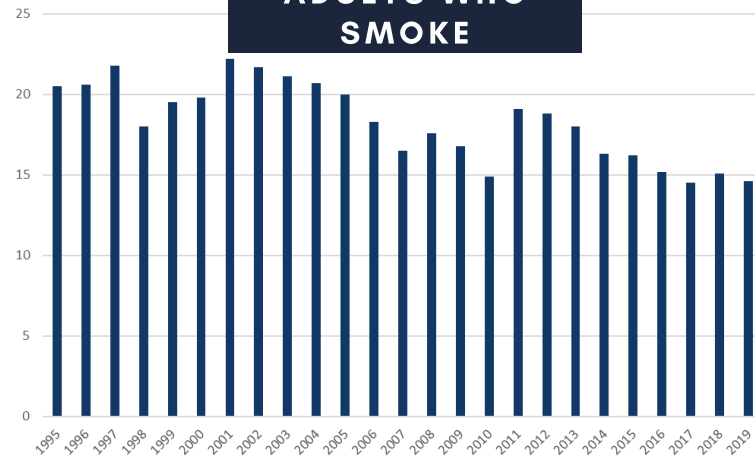
ADULT SMOKING RATES

In 1995, 20.5 percent[1] of Minnesota adults smoked combustible cigarettes, amounting to approximately 699,921 adults.[2] Among all adults, 17.4 percent (594,079 adults) reported smoking every day in 1995.

In 2019, 14.6 percent of adults in the Gopher State were current smokers, amounting to 633,125 smokers. Further, 10.5 percent of Minnesota adults (455,330) were daily smokers in 2019.

Among Minnesota adults, current smoking decreased by 28.8 percent between 1995 and 2019. Moreover, there are there are an estimated 255,852 fewer smokers in 2019, compared to 1995, and 299,217 fewer daily smokers.

PERCENTAGE OF ADULTS WHO SMOKE



AMONG MINNESOTA ADULTS, CURRENT SMOKING DECREASED BY 28.8 PERCENT BETWEEN 1995 AND 2019.



YOUTH COMBUSTIBLE CIGARETTE USE HAS DECREASED 84.5 PERCENT SINCE 1992.

YOUTH TOBACCO AND VAPING RATES

The most recent data on youth e-cigarette use in Minnesota comes from the 2019 Minnesota Student Survey (MSS).[3] In 2019, 11 percent of 8th graders, 16 percent of 9th graders and 26 percent of 11th graders reported using an e-cigarette in the past 30 days. Only 7 percent of 11th graders, 2 percent of 9th graders, and 1 percent of 8th graders reported daily e-cigarette use.

Minnesota combustible cigarette use is at an all-time low. In 2019, according to the MSS, 2 percent of 8th graders, 3 percent of 9th graders and 5 percent of 11th graders reported smoking a cigarette in the 30 days prior to the survey. Further, only 1 percent of 11th graders and 0 percent of 8th and 9th graders, reported daily cigarette use. This is a significant decline from 1992 when 31.3 percent of 12th graders, 19.3 percent of 9th graders and 5 percent of 8th graders reported using combustible cigarettes in the 30 days before the survey.

CIGARETTE TAX REVENUE

Between 1999 and 2019, Minnesota collected an estimated \$7.541 billion in tobacco taxes and licensing fees.[4] During the same 20-year period, the Gopher State increased the tax rate on cigarettes five times, with the excise tax increasing by 533.3 percent, from \$0.48 prior to August 1, 2005, to \$3.04, effective January 1, 2017.

Although the cigarette tax increase led to an immediate increase in revenue, such revenues have declined in recent years. Since the last cigarette tax increase in 2017, cigarette tax revenue has declined annually, on average by 5.29 percent. Indeed, in 2019, Minnesota collected \$499.4 million in cigarette tax revenue, a 10.3 percent decline from 2017's \$556.8 million.



BETWEEN 1999 AND 2019, MINNESOTA COLLECTED AN ESTIMATED \$7.541 BILLION IN TOBACCO TAXES.

MASTER SETTLEMENT AGREEMENT

In the mid-1990s, Minnesota sued tobacco companies to reimburse Medicaid for the costs of treating smoking-related health issues. And, in 1998, Minnesota and "Blue Cross and Blue Shield of Minnesota settled their lawsuit against several companies and related organizations," reaching Minnesota's Tobacco Settlement (MTS).[5]

Under the MTS, Minnesota receives annual payments - in perpetuity - from the tobacco companies, while relinquishing future claims against the participating companies. Between 1998 and 2020, Minnesota collected \$4.293 billion in MTS payments.[6]



BETWEEN 1998 AND 2020, MINNESOTA RECEIVED AN ESTIMATED \$4.293 BILLION IN MSA PAYMENTS.

VERY LITTLE TOBACCO CONTROL FUNDING

Tobacco taxes and tobacco settlement payments are justified to help offset the costs of smoking, as well as prevent youth initiation. Like most states, Minnesota spends very little of existing tobacco moneys on tobacco control programs - including education and prevention.

Between 1999 and 2019, the Gopher State allocated only \$460.7 million towards tobacco control programs.[7] This is 6.1 percent of what Minnesota collected in cigarette taxes in the same 20-year time span and only 10.7 percent of MTS payments. To put it in further perspective, the amount of state funding allocated to tobacco control in 20 years is only 3.9 percent of the tax revenue and MTS payments Minnesota collected in 2019.

IN 20 YEARS, MINNESOTA ALLOCATED ONLY 3.9 PERCENT OF TOBACCO SETTLEMENT PAYMENTS AND TAXES ON PROGRAMS TO PREVENT TOBACCO USE.

VAPOR PRODUCT EMERGENCE CORRELATES WITH LOWER YOUNG ADULT SMOKING

Electronic cigarettes and vapor products were first introduced to the U.S. in 2007 "and between 2009 and 2012, retail sales of e-cigarettes expanded to all major markets in the United States." [8] Examining data from the Centers for Disease Control and Prevention's Behavioral Risk Factor Surveillance Survey finds that e-cigarettes' market emergence has been more effective than MSA payments in reducing smoking rates among young adults in Minnesota.

In 1998, among current adult smokers in Minnesota, 22 percent were 18 to 24 years old. Interestingly, in 2008, this had *increased* by 7.7 percent, to 23.7 percent of adult smokers in

Minnesota being between 18 to 24 years old. And, 10 years after e-cigarette's market emergence in 2009, smoking rates among current smokers aged 18 to 24 years old decreased by 61.2 percent. Indeed, in 2009, among current smokers in Minnesota, 23.7 percent were between 18 to 24 years old. In 2019, only 9.2 percent of current smokers were 18 to 24 years old.

Further e-cigarettes' market emergence was associated with a larger decline in average annual percent decreases. Between 1998 and 2008, the percentage of current smokers aged 18 to 24 years old *increased* on average 2.7 percent each year. Between 2009 and 2019, annual percentage declines average at 2.5 percent.

10 YEARS AFTER E-CIGARETTES' MARKET EMERGENCE IN 2009, SMOKING RATES AMONG CURRENT SMOKERS AGED 18 TO 24 YEARS OLD DECREASED BY 61.2 PERCENT.

POLICY IMPLICATIONS:

- In 2019, 14.6 percent of Minnesota adults smoked combustible cigarettes, this is a 28.8 percent decrease from 1995. Youth combustible use has decreased by 84.5, from 19.3 percent of 9th graders smoking cigarettes in 1992, to 3 percent in 2019.
- Minnesota spends very little on tobacco control programs, including prevention and education. In 20 years, the Gopher State allocated only \$460.7 million toward tobacco control programs. During the same period, Minnesota received more than \$7.541 billion in cigarette tax revenue and \$4.293 billion in tobacco tax settlement payments.
- E-cigarettes appear more effective than MSA payments in reducing smoking rates among young adults in Minnesota.
- 10 years after the MSA, smoking rates increased among 18- to 24-year-olds by 7.7 percent. 10 years after e-cigarettes market emergence, smoking rates among 18 to 24 years old decreased by 61.2 percent.

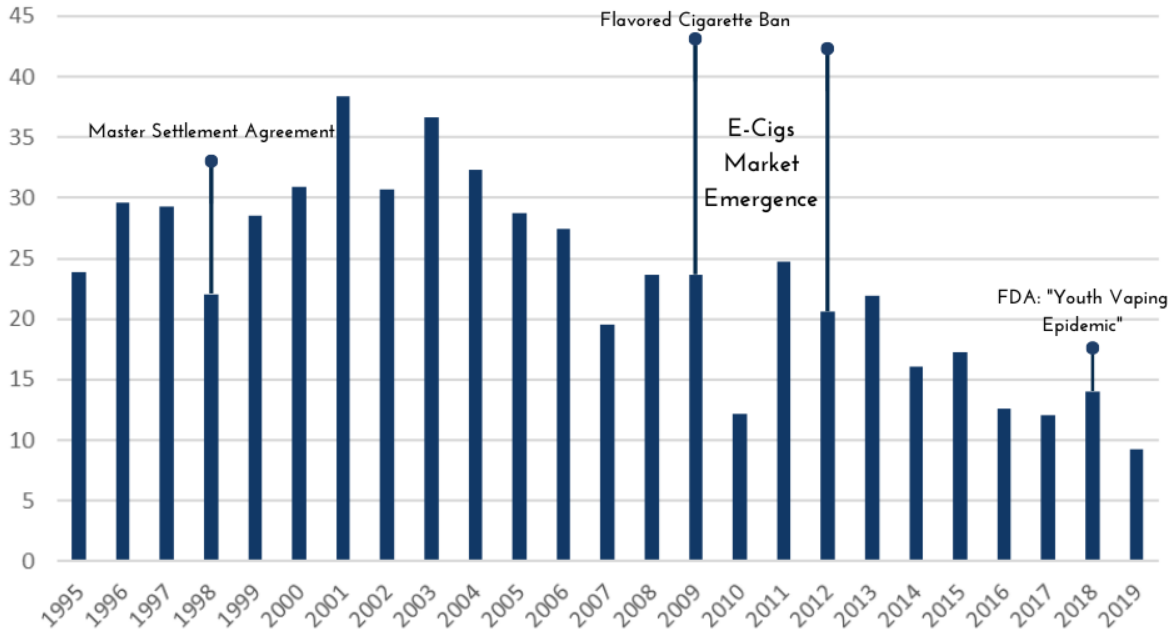




MINNESOTA BRFSS CURRENT SMOKERS



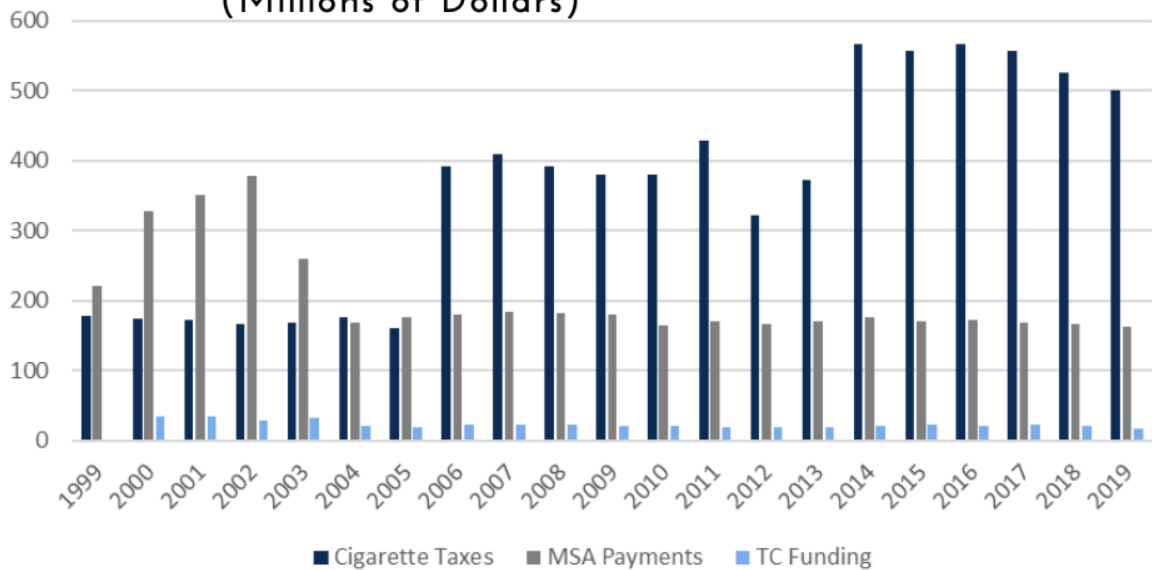
Percent aged 18 to 24 years old



Sources: Centers for Disease Control & Prevention, Behavioral Risk Factor Surveillance Survey
For more information, contact Lindsey Stroud at lindsey@protectingtaxpayers.org



MINNESOTA Master Settlement Payments, Tobacco Taxes & Tobacco Control Funding (Millions of Dollars)



Sources: Campaign for Tobacco-Free Kids, Orzechowski and Walker
For more information, contact Lindsey Stroud at lindsey@protectingtaxpayers.org



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ABOUT

The Taxpayers Protection Alliance (TPA) is a rapid response taxpayer and consumer group dedicated to analyzing and researching the consequences of government intervention in the economy. TPA examines public policy proposals through a non-partisan focus, identifying how government waste and overreach impacts taxpayers and consumers regardless of the political party responsible. TPA holds government officials in the United States (and around the world) accountable through issue briefs, editorials, statements, coalition letters, public interest comments, and radio and television interviews. TPA recognizes the importance of reaching out to concerned citizens through traditional and new media, and utilizes blogs, videos, and social media to connect with taxpayers and government officials. While TPA regularly publishes exposés and criticisms of politicians of all political stripes, TPA also provides constructive criticism and reform proposals based on market principles and a federalist philosophy. TPA empowers taxpayers and consumers to make their opinions known to their elected and non-elected officials and embraces bold solutions to hold an ever-growing government in check.

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