

Testimony Before the House Taxes Committee regarding HF 991

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Prepared by: The Consumer Freedom Project at Reason Foundation

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Chair Marquart, members of the committee, thank you for allowing me the opportunity to submit testimony on HF 991.

My name is Guy Bentley, and I'm the director of consumer freedom at the Reason Foundation, a 501(c)3 nonprofit think tank. The consumer freedom project analyzes and promotes policy solutions that improve public health while avoiding unintended consequences and protecting consumer choice.

Taxing e-cigarettes presents a very different policy challenge to that of taxing traditional cigarettes. Cigarette taxes are necessary to ensure smokers who may later contract smoking-related diseases do not impose additional healthcare costs on non-smokers. E-cigarettes, however, are a dramatically safer form of nicotine consumption.¹ Nicotine is one of the principal addictive agents in cigarettes but is not the cause of smoking-related disease, which stems from combustion and inhaling the resulting smoke. Since e-cigarettes do not involve combustion, they've been found to be substantially safer than traditional cigarettes.

Research published in the New England Journal of Medicine shows e-cigarettes to be almost twice as effective as nicotine replacement therapies at helping smokers quit.² The Cochrane Review, considered the gold standard of international evidence-based medicine, also finds e-cigarettes increase the number of people who stop smoking compared to nicotine replacement therapies.³

¹ Royal College of Physicians. "Promote e-cigarettes widely as substitute for smoking says new RCP report." 28 April 2016.

<https://www.rcplondon.ac.uk/news/promote-e-cigarettes-widely-substitute-smoking-says-new-rcp-report>

² Hajek, Peter et al. "A Randomized Trial of E-Cigarettes versus Nicotine-Replacement Therapy." N Engl J Med 2019; 380:629-637 <https://www.nejm.org/doi/full/10.1056/NEJMoa1808779>

³ Hartmann-Boyce J, McRobbie H, Lindson N, Bullen C, Begh R, Theodoulou A, Notley C, Rigotti NA, Turner T, Butler AR, Fanshawe TR, Hajek P. "Electronic cigarettes for smoking cessation." Cochrane Database of Systematic Reviews 2020, Issue 10.

<https://www.cochranelibrary.com/cdsr/doi/10.1002/14651858.CD010216.pub4/full>

Because e-cigarettes are substitutes, not compliments, to traditional cigarettes, raising e-cigarette prices necessarily advantages combustible tobacco products. Minnesota was the first state in the nation to introduce a tax on e-cigarettes amounting to 95 percent of the wholesale price. According to a study of the tax published in 2020 an estimated 32,400 fewer people quit smoking cigarettes in Minnesota because of the e-cigarette.⁴ An additional 35 percent retail tax on e-cigarette devices and e-liquids would undoubtedly slow the decline in smoking rates.

The difference in risks between these devices and traditional cigarettes strongly suggests from a public health perspective that e-cigarettes be taxed at a substantially lower rate than combustible tobacco. Doing so would incentivize smokers who cannot or will not quit through other means to switch to a less dangerous form of nicotine consumption.

Half to three-quarters of American smokers are from low-income communities, so any price increase will necessarily present a more significant barrier to poorer smokers looking to switch to vaping than those on higher incomes. According to a working paper published in the National Bureau of Economic Research, the price elasticity for e-cigarettes is -1.3 , so for every 10 percent increase in the price of e-cigarettes, sales fall by 13 percent.⁵ By contrast, cigarettes are highly inelastic, ranging from -0.3 and -0.7 , so for every 10 percent increase in the price of cigarettes sales decline between three and seven percent. Vapers who use the products to replace traditional cigarettes are highly sensitive to price changes.

Independent e-cigarette businesses such as vape shops are also highly sensitive to large tax increases, often operating on wafer-thin margins. In July 2016, the Pennsylvania General Assembly passed a 40 percent wholesale tax on vapor products. By November the next year, 130 small vape shops closed.

E-cigarette taxes are often considered a necessary tool to reduce youth vaping but as of yet, there's little evidence to suggest they achieve significant results. Youth vaping in Pennsylvania increased substantially following the implementation of an e-cigarette tax. Fortunately, the latest data gathered in January-March 2020 shows youth vaping fell nationally by 28 percent.⁶

⁴ Saffer H, Dench D, Grossman M, Dave D. E-Cigarettes and Adult Smoking: Evidence from Minnesota. *J Risk Uncertain*. 2020 Jun;60(3):207-228. doi: 10.1007/s11166-020-09326-5. Epub 2020 Jul 16. PMID: 32943812; PMCID: PMC7491748.

⁵ Cotti, Chad D and Courtemanche, Charles J and Maclean, Johanna Catherine and Nesson, Erik T and Pesko, Michael F and Tefft, Nathan. "The Effects of E-Cigarette Taxes on E-Cigarette Prices and Tobacco Product Sales: Evidence from Retail Panel Data." National Bureau of Economic Research. August 2020. <https://www.nber.org/papers/w26724>

⁶ U.S. Food and Drug Administration. "Youth Tobacco Use: Results from the National Youth Tobacco Survey." 22 December 2020.

There is strong reason to believe youth e-cigarette use can be reduced with alternative public health strategies that will not deter adult smokers from switching to a safer nicotine product.

Thank you again for the opportunity to comment on HF 991, and please do not hesitate to reach out if we can provide additional information or insights on this subject.

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