

TEF NEWS RELEASE

TAXPAYER EDUCATION FOUNDATION

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FOR IMMEDIATE RELEASE

April 20, 2021

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THEY NEVER LEARN: SIN TAXES CREATE MORE SINNERS

A Democrat state representative in Maine has introduced a bill that would double the excise tax on cigarettes to \$4.00 a pack. Due to Maine law, all other tobacco products would also be subject to a 100 percent rate increase.

This proposal has at least four major issues, according to an April 13 report from the Washington-based nonpartisan Tax Foundation: Flawed revenue allocation, risk of increased smuggling, regressivity, and violation of the harm reduction principle.

The reason for the proposed increase purportedly is to limit tobacco use and increase funding for the state's Department of Health and Human Services and the Center for Disease Control and Prevention. But, according to the foundation, "An increase in the rate is by no means necessary.... A doubling of the rates looks more like arbitrary taxation meant to bolster general fund collections, and excise taxes are poor vehicles for stable revenue due to their narrow design."

The report states that reallocating existing funds would be a much better policy, because doubling the rates introduces a risk for unintended consequences. The Mackinac Center, which publishes an annual analysis of cigarette smuggling, estimates that a 100 percent increase of cigarette taxes in Maine would more than triple inbound smuggling rates (from 8 percent in 2018 to 25 percent).

Additionally, excise taxes tend to be regressive, and some more so than others. "Tobacco is especially regressive because consumption usually increases as income decreases—contrary to regular consumption. This results in higher consumption among young people, low-income earners, racial and ethnic minorities, and those without a college education."

The bill also doubles taxation of vapor products. These products are taxed at 43 percent of value at wholesale level, and this rate would increase to 86 percent. “Taxing vapor products at the same rate as cigarettes violates the harm reduction principle... even if vapor products are unhealthy in their right—they represent an attractive alternative to combustible cigarettes.” Vapor products can deliver nicotine without the combustion and inhalation of tar from cigarettes.

“The consensus is that vapor products are less harmful than traditional combustible tobacco products. Public Health England, an agency of the English Ministry for Health, concludes that vapor products are 95 percent less harmful than cigarettes.”

The study concludes, “Tax policy should encourage the switch to limit harm and to limit smoking—not the other way around...vapor taxes should be lower relative to combustible products.”

“Politicians never learn,” said Jim Tobin, economist and president of Taxpayer Education Foundation (TEF). “Whether it’s punitive taxation, gouging taxation, or outright prohibition, the unintended consequences always are worse than the original problems.”

Source: <https://taxfoundation.org/maine-tobacco-tax-vaping/>