



Dear Subcommittee Members:

On behalf of JTI LIGGETT, an importer and manufacturer of tobacco products based in Raleigh, NC, I write to express our opposition to tax provisions in HSB 694, which raises the state excise tax on cigarettes and imposes an ad valorem tax on vapor products. JTI LIGGETT firmly believes minors should never access or consume tobacco products. However, informed adults should retain the freedom to legally purchase tobacco products and not face high, regressive taxation. We stand with our partners—retailers, distributors, and adult consumers—in opposition to HSB 694.

JTI LIGGETT supports evidence-based, proportionate regulation and recognizes the fiscal challenges facing the state. While we understand the role of reasonable taxation, any necessary tax increases should be moderate and consider how the tax rates in neighboring states currently benefit tax revenues in Iowa.

Any change to the excise rate and structure must take great strides to minimize unintended consequences, such as cross-border sales, smuggling, or revenue loss. The increase in tax proposed in these bills would provide only a temporary boost in revenue while imposing lasting harm on tax-paying businesses and adult consumers. States that raised cigarette excise taxes by \$0.75 to \$1.75 per pack saw legal cigarette volumes drop by 20–30%, largely driven, not by a reduction in consumption, but due to inflows of cross-border smuggling¹.

Tax increases in 2021 in Colorado, Maryland, and Oregon led to substantial increases in cross-border smuggling rates, yielding a dramatic decrease in tax revenue totaling hundreds of millions of dollars². All told substantial increases in the excise tax led to significant financial shortfalls compared to the optimistic budget projections used to justify those same increases.

In place of the proposed \$0.65 increase, we would encourage the Legislature to consider a far more sustainable and predictable approach: a modest \$0.30 per-pack increase to the cigarette excise tax. A \$0.30 adjustment would generate additional revenue without triggering the significant cross-border sales shifts, smuggling activity, or long-term revenue erosion that accompany large, sudden tax hikes. This incremental increase aligns with regional tax competitiveness, maintains predictability for retailers and distributors, and provides the state with a stable, recurring revenue

¹ Adam Hoffer, “Cigarette Taxes and Cigarette Smuggling by State, 2021,” Tax Foundation, December 2023, <https://taxfoundation.org/data/all/state/cigarette-taxes-cigarette-smuggling-2023/>

² Michael Lafaive and Todd Nesbit, “Cigarette Taxes & Smuggling,” Mackinac Center for Public Policy, June 2023, <https://www.mackinac.org/smokes>



source without disproportionately burdening adult consumers or undermining Nebraska-based businesses.

Additionally, HSB 694 imposes a tax on vapor products at a rate of 15% of the retail price. It is our belief that a consumption-based tax regime is the most effective system. The tax contemplated in this bill will invariably see adult consumers continue to gravitate to the cheapest products in the market, thus creating uncertainty for the state regarding tax collections. The results of this are larger price differentials between the highest and lowest quality products, a price incentive for adult consumers to move to the cheapest brands, and a race to the bottom for manufacturers that may compromise safety or quality. A fixed tax on the liquid consumed across all devices avoids such a scenario.

All told, substantial increases in the SET lead to significant financial shortfalls compared to the optimistic budget projections used to justify those same increases. It is our hope that the Legislature will abandon the current version of HSB 694. Instead, we hope the Legislature would consider adopting a per-milliliter tax structure for e-cigarettes and removing or significantly reducing the cigarette tax increase to a sustainable, proportionate threshold. We understand that additional revenue may be needed, so we would suggest a modest per-milliliter e-cigarette tax of \$0.15 for products with 3 milliliters or less of e-liquid, with a substantially higher tax on e-liquid products containing over 10 milliliters. This tax structure strikes the right balance of providing a moderate level of taxation, delivering meaningful revenue to the state, and does not put FDA-compliant companies, and their consumers, at a disadvantage to unsavory manufacturers and importers of illicit products.

History has shown that disproportionate increases in tobacco excise taxes often reduce, rather than increase, tax revenue, while placing additional fiscal strain on the state. We urge the state to avoid repeating these mistakes, which would harm local retailers and burden taxpaying adults. Instead, we encourage the Iowa Legislature to explore long-term, sustainable solutions for raising revenue that protect businesses and consumers.

Sincerely,

A handwritten signature in black ink, appearing to read 'John McDonald', written in a cursive style.

John McDonald
Head of State Government Affairs