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Testimony from:  
Alan Smith, Midwest Director & Senior Fellow, R Street Institute  
In opposition to House File 991

House Taxes Committee

February 17, 2021

Chairman Marquart, Vice Chair Lislegard, Republican Lead Davids and members of the House Taxes Committee, my name is Alan Smith, and I am a senior fellow and Midwest director at the R Street Institute, which is a nonprofit, nonpartisan, public policy research organization. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government in many areas.

One particular increase in taxes proposed by HF 991 really caught our attention because of our portfolio on tobacco harm reduction. We have been encouraged that the studies overwhelmingly indicate that vaping could be the most effective solution for many persons trying to quit smoking. From our reading of this legislation, the gross receipts tax of 35 percent would be added to the 95 percent OTP tax currently applied to vapor products. To tax a legal product at 130 percent would not clear any definition of acceptable tax policy and there is a strong argument that the underlying health argument also fails when smoking cessation programs without vaping have overall not been successful.

We think the public policy manifested here may be backwards. Sin taxes are also some of the most regressive taxes of all and raising the tobacco tax by a dollar a pack hurts the most vulnerable citizens in the state.<sup>1</sup>

Beyond the increased taxes lurks a question of efficacy. With the exception of gaming revenues and the lotteries, the history of sin, in particular tobacco taxes, indicates that the revenue projected by the increased tax hardly ever materializes as people utilize border stores, black markets, untaxed products

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<sup>1</sup> Pew Charitable Trusts, *Are Sin Taxes Healthy for State Budgets?*, Pew Research Center, July 19, 2018. <https://www.pewtrusts.org/en/research-and-analysis/reports/2018/07/19/are-sin-taxes-healthy-for-state-budgets>

sold from Native American lands or use less of the product. The average state take from tobacco taxes is 0.7 percent of revenues.<sup>2</sup>

In our judgment, this bill is both probably unnecessary and violative of most principles of effective tax policy designed to recover an economy. It could be unnecessary because the state has already received around \$2 billion allocated to it from the federal CARES Act, including \$841 million sent to local governments, with another nearly guaranteed slug of money coming from federal taxpayers now being negotiated in the Congress. These allocations are designed to fund many of the COVID-19-relief goals for which these tax increases are proposed.<sup>3</sup> Raising the personal, corporate, capital gains and estate taxes is not the way to lessen the burden that Minnesotans face from the prolonged lockdown and continuing pandemic scourge.

Minnesota has not broken out of the bottom 10 states ranked on economic outlook in the last 10 years. In addition, the projection before this series of tax increases was ranked 41<sup>st</sup> in the nation by the *Rich States, Poor States* annual ranking, which former National Chairwoman of the State Financial Officers Foundation Kelly Mitchell says “gives leaders insight on various policies that impact the financial health of each state”.<sup>4</sup>

Our advice would be to tweak broad-based tax increases to the demonstrated need after analyzing what U.S. taxpayers decide to contribute against any lost tax revenues that can be netted out, and to skip regressive increases on already highly taxed products for tobacco and vaping use completely.

R Street would be delighted to offer additional testimony on the interaction and use of tobacco and vaping products, particularly among smokers who have tried many other smoking cessation products.

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<sup>2</sup> Grant Suneson, “Top 10 States profiting the most from sin taxes: Nevada isn’t at the top,” *USA Today*, June 26, 2019. <https://www.usatoday.com/story/money/2019/06/26/states-profiting-the-most-from-sin/39618383/>

<sup>3</sup> Minnesota Management and Budget, *Coronavirus Relief Fund Local Government Spending Report*, Minnesota Department of Administration, Dec. 17, 2020. <https://mn.gov/mmb-stat/crao/dec-17-crf-local-government-spending-report.pdf>

<sup>4</sup> Arthur B. Laffer et al., “Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index,” American Legislative Exchange Council. [https://www.richstatespoorstates.org/app/uploads/2020/08/RSPS\\_13th-Edtion\\_State-Pages\\_final.pdf](https://www.richstatespoorstates.org/app/uploads/2020/08/RSPS_13th-Edtion_State-Pages_final.pdf)