

Taxing E-Cigarettes in Tobacco Country

**E-Cigarette Tax Policy Research
Meeting**

Oakland, California

January 22, 2015

North Carolina E-Cigarette Tax

- 5 cent-per-milliliter tax to the **nicotine mixture** used in e-cigarettes
 - One e-liquid cartridge (closed system) has 0.5 milliliters
 - The tax on a closed system e-cigarette would be \$0.025 per cartridge (2 ½ cents)
 - The tax on a 10 ml bottle of e-liquid that is used in an open system e-cigarette will equal \$0.50 per bottle.

R.J. Reynolds Led the Charge

- David Powers, a company vice president, presented the tax proposal to the **Revenue Laws oversight committee** in early May 2014
- David Howard voiced the company's support to the **House finance committee**
- Bill passed the same month; **bi-partisan support**
- Tax goes into effect this year, **2015**

Cigarettes vs. E-cigs

- Cigarettes are taxed at 45 cent per pack; North Carolina ranks 45 lowest in the Country
- One e-cigarette cartridge is = 1 pack of cigarettes in puffs ; the tax on e-cigs (2 ½ cents); hence, **substantially lower**

Minnesota vs. North Carolina

- The five-cent excise tax is significantly lower than Minnesota's (where e-cigarettes are taxed at a rate of 95% of the wholesale cost),

Reynolds: Trying to Get Ahead of the Curve

- Reynolds spokesman David Howard
 - acknowledged that an excise tax in North Carolina, as well as most states, is likely given the dynamic of **increased e-cig usage compared with decreasing combustible cigarette usage.**
 - “a fair and reasonable” excise tax on e-cigs, “if a tax is deemed appropriate at all.”
 - http://www.journalnow.com/business/business_news/local/reynolds-american-suggests-state-tax-rate-for-e-cigarettes/article_2be42a52-dad1-11e3-953b-001a4bcf6878.html?TNNoMobile

Tobacco Industry Harm Reduction Rationale

- Reynold's Howard and Powers
 - Believe e-cigs should be taxed at a lower rate in part because **they do not contain tobacco**, and the vapor produced **does not create a second-hand smoke risk**.

Lorillard and Reynolds: Hand in Hand

- Gregg Perry, a spokesman for Lorillard Inc.,
 - “The proposal currently pending recognizes the tobacco harm reduction opportunity of electronic cigarettes and provides incentive for smokers to switch,” he said.

Reynold's History Legislative Initiative

- Being proactive with legislation is not new to Reynolds. It made a similar recommendation last year to ban e-cig sales to youths that legislators eventually passed.

Projections

- Herzog estimated there was \$2 billion in overall e-cig revenue in 2013. She projects up to \$10 billion by 2017.
- She predicts Reynolds will have \$4 billion in revenue from e-cigs in 2021, compared with \$3.9 billion from conventional cigarettes. That's compared with barely any e-cig revenue and \$6.4 billion in conventional cigarette revenue for 2013.