



September 19, 2017

The Honorable Richard Durbin
Assistant Minority Leader
U.S. Senate
Washington, DC 20510

Dear Senator Durbin:

We are writing to express our strong support for the Tobacco Tax Equity Act of 2017. Current tax loopholes and unequal tax rates encourage use of lower-taxed tobacco products and create incentives for tax avoidance. Your bill will improve public health and increase federal revenues by closing these loopholes and ensuring that all tobacco products are taxed at levels similar to the current tax rate for cigarettes.

Our organizations strongly support increasing and equalizing tobacco taxes. The evidence is clear that raising tobacco prices through higher taxes is one of the most effective ways to reduce tobacco use, especially among children. Creating a more equitable tax system, free of loopholes, will help prevent young people from starting to use tobacco products and help current users to quit.

The current system for taxing tobacco products is neither simple nor equitable. Tobacco products are taxed in different ways and at different rates, which has created large disparities in the tax levied on similar products. Such disparities have created opportunities for manufacturers to make small modifications to products or their labeling so that they qualify for lower tax rates. The availability of these lower-taxed products can dissuade tobacco users from quitting and encourage youth to initiate tobacco use.

The Government Accountability Office (GAO) has highlighted how certain manufacturers have avoided paying higher taxes on roll-your-own tobacco by re-labeling the product as "pipe" tobacco, which is taxed at substantially lower rates under the current tax code. The GAO also noted that some manufacturers have avoided the higher tax rates for cigarettes and small cigars by slightly modifying their products to qualify as large cigars. GAO estimates that federal revenues lost as a result of these two loopholes range from \$2.6 billion to \$3.7 billion from April 2009 through February 2014.

The Tobacco Tax Equity Act would, among other steps, close the pipe tobacco and large cigar loopholes. Pipe tobacco would be taxed at the same rate as roll-your-own tobacco and cigarettes. Large cigars would be taxed based on their weight and, by establishing a minimum tax, all large cigars would be taxed at least as much as the current tax on a cigarette. The bill would also change the tax rate for smokeless tobacco so that a typical can of moist snuff and pouch of chewing tobacco would be taxed at the same amount as a pack of 20 cigarettes. A new category for smokeless tobacco products that come in discrete single-use units would also be created so that these especially low-weight products are taxed in a similar way as cigarettes. In addition, new types of tobacco products that are not currently specified in the tax code would be taxed like cigarettes. Importantly, tax rates for tobacco products would be adjusted for inflation.

By closing loopholes and creating a system that promotes parity among different tobacco products, the Tobacco Tax Equity Act will not only enhance federal revenues but also promote public health. We applaud you for introducing this bill and your strong and continued commitment to reducing tobacco's terrible toll on our nation.

Sincerely,

American Lung Association

Campaign for Tobacco-Free Kids