



Vapers, the vaping industry, and taxes

The U.S. Vaping Market

2018 -- \$5.5 billion in sales

- \$3.5 billion – open vapor products (e-liquid, tank systems, etc)
- \$2.0 billion – closed systems (including Juul, now with 60% share)

Large tobacco companies once dominated the closed system space

- 2012 – blu acquisition by Lorillard
- 2013 / 14 – MarkTen and Vuse released by Altria and Reynolds

Big difference between the two is volume

- E-liquids used in open products contain 30, 60 or 120 ml of e-liquid
- Closed system cartridge contains 1-2 ml of e-liquid

The First U.S. Vapor Tax

2010

- Minnesota “modernization” of “other tobacco product” (OTP) definition.
- “Any product containing, made, or derived from tobacco.”
- 70% wholesale tax

2013

- Cig tax increase of \$1.60 per pack + OTP hike to **95% of wholesale**

The Effect in Minnesota

Produced in Minnesota

- 95% wholesale tax applied on *nicotine* when it first enters state
- Very small tax for in-state manufacturers



Produced outside Minnesota

- 95% wholesale tax applied when the product enters the state
- If nicotine is packaged with the battery, all products are taxed.
- Huge tax, especially for closed systems

Tobacco Companies Pitch an Alternative

2013

- Failure in Oklahoma and South Carolina – 5 cents per ml
- Volume-based taxation is almost always best for closed systems

THE DAILY CALLER

**BIG TOBACCO STUBS OUT E-CIGARETTE
COMPETITORS**

Alternatives Gain a Foothold

2014

- Passed in North Carolina – 5 cents per ml



30 ml = \$1.50 tax



Cig pack = \$0.45 tax

Onward

- Louisiana, Delaware, Kansas* – 5 cents per ml
- West Virginia – 7.5 cents per ml

Tobacco Companies Seek an Alternative in Minnesota

PROBLEM: How do you replace a 95% wholesale tax?

30 CENTS PER ML

- 2 ml cartridge = \$0.60 wholesale tax
- 30 ml = \$9.00 wholesale tax
- 120 ml = \$36.00 wholesale tax

Industry and engaged consumers (most of whom use open systems) pushed back.

Sponsor eventually gave up.

What Approach is Best for Public Health?

- Studies repeatedly show that daily users of open system products are more likely to be smoke-free.
- But that could change going forward as Juul and other pod systems gain popularity.
- No tax is the best policy.
- Different tax rates for open vs. closed?