



March 6, 2025

House Finance and Taxation
Testimony in Opposition to SB2281

Chair Headland, Vice Chair Hagert, and members of the House Finance and Taxation Committee,

The Cigar Association of America (CAA) submits the following testimony in opposition to SB2281, a bill that would raise the excise taxes on tobacco products, including cigars and pipe tobacco, in North Dakota. CAA is the leading national trade organization representing the interests of cigar manufacturers, importers, distributors, and major suppliers in the cigar and pipe tobacco industry, and therefore is, a key stakeholder in any discussion on the regulation of these products, as any changes in laws significantly impact its members and their ability to conduct business.

There is no policy or economic justification for the drastic increase in taxes on cigars and pipe tobacco proposed in SB2281. The most recent National Youth Tobacco Survey reported that nationwide youth usage of cigars is at 1.2% and youth usage of pipe tobacco was at 0.5% -- both historic lows. Therefore, any arguments or claims that an increase in excise taxes on these products will reduce youth usage are unfounded. Furthermore, pipe tobacco and cigars have a small, niche adult consumer base, meaning this proposed tax increase would disproportionately impact responsible adult consumers without any measurable effect on youth usage.

SB2281 will drive consumers to out-of-state and online markets which will kill jobs and small businesses in North Dakota, and limit opportunity for the state to collect tax revenue. During hearings on SB2281 before the Senate Finance and Taxation Committee, comparisons were made between tobacco tax rates in Minnesota and North Dakota. Under current law, North Dakota imposes a 28% excise tax on cigars, whereas Minnesota, despite having a higher rate, caps the tax at \$0.50 per cigar. As a result, a \$10 cigar today is taxed at \$0.50 in Minnesota but \$2.80 in North Dakota. If SB2281 passes, the tax in North Dakota would rise to \$6, which is 12 times higher than in Minnesota!

A significant tax increase would inevitably be passed on to consumers, driving them to seek lower-taxed alternatives elsewhere. Furthermore, North Dakota recently passed a bill allowing the establishment of cigar lounges and is considering another to facilitate licensing requirements. As these businesses are just beginning to establish themselves, the loss of a consumer base due to SB2281 could have a devastating impact on entrepreneurs entering the market. At a time when the legislature is working to support the industry's growth, passing this bill would directly undermine those efforts.

CAA appreciates the opportunity to submit this testimony in opposition to SB2281. The proposed tax hike would harm small businesses just getting on their feet, decrease state tax revenues, and impose an unnecessary financial burden on adult consumers in North Dakota. We encourage lawmakers to support policies that foster a stable business environment and protect Washington's small businesses.

Respectfully submitted,
Scott Pearce - President, Cigar Association of America, Inc