



10 February, 2016

VIA ELECTRONIC Mail

Senator Mia Costello
Chair, Labor and Commerce Committee
Alaska State Legislature

Re: In opposition to SB 133 – seeking to impose an excise tax on electronic cigarettes

Honorable Chair,

Logic Technology Development LLC, headquartered in Princeton, New Jersey, is the third largest supplier of electronic cigarettes in the USA*.

On behalf of our employees, customers, retailers and consumers, I am writing to urge the Committee to reconsider SB 133, which seeks to levy taxation on the sale of electronic cigarettes.

We believe that imposing taxation on electronic cigarettes at this juncture would be premature. The electronic cigarette market is still relatively new. In addition, the impact of the forthcoming Federal regulation of electronic cigarettes on the market is unknown. We believe that imposing taxation on top of this could destabilize this nascent category and may well lead to an increase in unregulated sales, especially as the demand for electronic cigarettes already exists. Sales via the internet are already increasing, leading to a growing lack of visibility, accountability and transparency, in addition to the avoidance of sales taxes at this time.

Having set out our position, we recognize the State's interest and right to derive revenue via taxation and, if this is a path that must be followed in relation to electronic cigarettes, we would advocate for a moderate level of taxation that allows the category to continue to develop. This would also serve to limit incentives for tax evasion and avoidance, which undermine tax revenues and broader legislative policy objectives.

At the same time, and although we remain opposed to the imposition of taxation on our products, we would propose a different basis for taxation to the one envisaged in SB 133. To ensure effective and efficient tax policy, we believe it to be essential to define an optimal tax base, excise tax structure and rate.

For these three areas, we would propose the following;

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- Tax base: a liter of nicotine-containing liquid should be defined as the tax base, as the criteria for taxation should rely on consumption.
- Tax structure: a purely specific excise tax structure set as a fixed amount per liter of nicotine-containing liquid to ensure efficient tax administration.
- Tax level: should be determined in such a way to ensure the optimization of tax revenues on a long-term basis. Since electronic cigarettes are different from conventional tobacco products (as they are not combustible), they should not be associated with conventional tobacco products for taxation purposes.

Defining the taxable base as above represents a simple yet comprehensive foundation for levying excise tax, as it will ensure effectiveness and minimize any administrative costs. It also represents the most proportionate and fair approach. At the same time, the criteria for taxation will rely on consumption, since the nicotine-containing liquid is the consumable item.

If the Committee remains minded to introduce taxation on electronic cigarettes, we would like to take this opportunity to draw the Committee's attention to the growing risk presented by some sales via the internet. As the regulatory burden continues to grow on responsible suppliers, such as Logic, less scrupulous operators that are not concerned by regulatory obligations, youth access, and product quality or consumer protection, continue to exploit an unregulated cyber environment avoiding all regulation and taxation compliance requirements. Anything other than a moderate excise approach would exacerbate this growing concern.

Logic is proud to be a regulatory and compliance-led organization. As a responsible company, we fully support science and evidence-based regulation. We operate self-imposed marketing restrictions, voluntarily place health warnings on our products and marketing materials and operate a stringent age-verification system for any online sales through our website. To reinforce our position against youth access to electronic cigarettes, Logic also sits on the WeCard Manufacturer Advisory Council and supports and promotes the organization's mission of age verification.

We look forward to continued participation in this debate and would ask the Committee to take the points we raise into full consideration. We remain at your disposal to meet or provide further information at any stage.

Yours respectfully,



Anthony Hemsley

Vice President Corporate Affairs & Communication

Cc: Members of the Labor and Commerce Committee

*By unit share and dollar share, as measured by Nielsen data