

House Committee on Taxation

February 19, 2015

Testimony of Doug Mays
On behalf of
The Cigar Association of America

House Bill 2306

HB 2306 proposes, among other things, to increase the tax rate on cigars and other tobacco products (OTP) from current Kansas OTP tax rate from 10% of the wholesale price, to 25% -- a **150% increase from the current tax rate.**

Cigars and OTP are taxed on the cost at the wholesale level. Whenever there is a price increase by a manufacturer or wholesaler, the amount of taxes paid to the state increases. Historically, the amount of OTP revenue collected by Kansas has risen virtually every year averaging at or above the rate of inflation.

Cigars and OTP are also taxed federally. In 2009, the U.S. Congress enacted a massive increase in federal taxes on Cigars and OTP. These products are taxed by states at the wholesale level, while federal taxes are assessed at the manufacturer level. The inflated price that occurred as a result of increased federal taxes resulted in an unforeseen boost in Kansas tax collections – a tax upon a tax. On top of that add state and local sales taxes to which Cigars and OTP are also subjected.

With the state of Missouri having the lowest tobacco taxes in the America, there is little doubt that the proposals contained in HB 2306 will result in a huge shift in buying habits by Kansas consumers who, by nature, are frugal and will drive in order to save on purchases of consumables. The greater disparity, the further they will drive. And when a consumer product has a long shelf life, they are motivated to travel long distances by combining their road trips with other out-of-state activities.

Times have changed, and so has the method of choice for buying cigars and OTP. The internet is now the simplest method to purchase cigars and OTP without paying high taxes. One need only Google **“cigars online”** to see the number of aggressive and sophisticated web based tobacco marketers. Consumers today are internet savvy and require scant encouragement to shop online for less costly alternatives.

In summary, the passage of HB 2306 and the resulting higher taxes on cigars and OTP will not significantly increase tax revenues in Kansas, nor will it change the smoking habits of its citizens. What it will do is single out and punishes Kansans for making personal choices by purchasing legal products.

I urge you to vote against HB 2306.