

TESTIMONY

TO: The Honorable Marvin Kleeb
And Members of the House Committee on Taxation

FROM: Tom Jacob
On behalf of Cigar Chateau, LLC
Wichita, KS

RE: HB 2306

DATE: February 19, 2015

Mr. Chairman and Members of the Committee:

"The financial crisis should not become an excuse to raise taxes, which would only undermine the economic growth required to regain our strength." -- George W. Bush

I want to express my opposition to HB 2306, specifically the proposal to increase tax on "other tobacco products" (OTP) from *ten to twenty-five percent*. I operate a family-owned tobacco shop in Wichita. Whether it is immediate or gradually over time, the passage the OTP tax in HB 2306 most assuredly guarantees the death of the brick and mortar tobacconist in Kansas.

I understand the allure of targeted taxes, especially on items that our society has deemed unnecessary for daily living. I also understand the importance of a balanced budget. Why not create an overflow in one bucket to fill another that has been drained dry? The problem? Targeted taxes **do not work**. As a recent past board member of the International Premium Cigar and Pipe Retailers Association (IPCPR), I am acquainted with the consequences of OTP taxes such as the one contained in HB 2306. The IPCPR's state affairs committee tracked and monitored like tax increases across the country and the effects of their implementation. The results? States that increased the OTP tax *lost* tax revenue. Some of these states have since backed off or reduced these taxes, understanding that it was not the answer to their budgetary problems.

There are about *fifteen* family-owned brick and mortar tobacco shops in Kansas that sell "premium handmade cigars" and would thus be the most affected by the OTP tax increase in HB 2306. Less than *half* of these stores sell pipe tobacco. This targeted tax is a miniscule tick in the total tobacco tax revenue stream. My best guess? It would be approximately 3% of the state's total tobacco tax revenue.

We, as business owners and citizens of this great state, are constantly bombarded with the mantra "buy local; keep businesses in Kansas." But how, exactly, do you suggest we do that when you choose to tax us right *out* of business? Are we, as purveyors of certain "sin tax" items, somehow entitled to less tax protection than the local bookstore around the corner? All this increased tax will do is drive current *local, taxable* sales to the Internet or, even *more* damaging, over state lines. And then nobody wins: locally-owned tobacconists are forced out of business and the state is denied not only the alleged increase in taxes but also the *existing* revenue. I have customers come into my store every week and say "I just need a few cigars until my internet order (untaxed) comes in." You will drive them to even

greater online purchasing and you lose all their taxable sales. So, who gets the last laugh? Internet sellers who already own at least 60% of all premium cigar sales.

In 2009, the federal government turned over control of all tobacco products to the FDA. However, even this cessation of power is currently under review with regard to the premium cigar market. There are, at present, two bipartisan-supported bills before Congress, HR662 and S441 that propose to exclude “premium handmade cigars” from FDA control. Those Congressmen that support these bills recognize that “premium handmade cigars” are such a small segment of the tobacco industry that strict regulation would virtually eliminate that portion of the industry.

Can I sit here and argue to you that “premium handmade cigars” are necessary for the lives of Kansas’ citizens? Not really. But what I *can* tell you is that these cigars are a lifestyle, one that currently provides revenue for the State of Kansas. But, there is a line beyond which people simply will not go, and I suggest to you, based not only on my first-hand knowledge of the day-to-day life of this industry but also upon my years spent working with IPCPR, that passing HB 2306 and raising tax on “other tobacco products” from *ten to twenty-five percent* is one step over that line. The blowback will be swift, and it will be severe. And, even more certainly, the State of Kansas will be the loser.

I therefore implore you to prevent the demise of the family-owned brick and mortar tobacconist. Think of your constituents; those who support the State of Kansas through their purchase of “premium handmade cigars” and pipe tobacco ; those who, more importantly, have entrusted their livelihoods to the free market system and support their families by operating locally-owned businesses.

Please, consider your actions carefully. Thank you for your time.

Respectfully submitted,

Tom Jacob
Cigar Chateau, LLC
3049 N Rock Road
Wichita, KS 67226