

DIEBEL'S SPORTSMENS GALLERY

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Distinguished Committee Members,

My father started our business in 1954. We are in our 61th year. I employ 14 people. I sell cigars. A legal product that is as old as our great country. Premium * Imported * Luxury * All tobacco * Hand-made by Artisans in the Caribbean. There are no chemicals. There are no additives. None of my customers are addicted. My customers are all old enough to fight in the Middle East. We do not sell to kids. The great majority of my customers are college educated. My customers smoke cigars for the taste, relaxation and camaraderie of fellow smokers. I am one of the people who collect and pay your OTP tax. None of the proponents do this. Isn't it ironic that the proponents don't pay the tax they want you to raise? I looked up the origins of the word proponent. It dates to 1580 and is a Latin word meaning: "tax the other guy".

I am a small business. 75% of my business is cigars. Attacking premium cigars is attacking my small business. Cigaraficionado.com did an online consumer survey on February 17, 2009 and asked their readership "If cigar prices rise due to higher taxes, will you buy fewer cigars?" 51% of the respondents said YES.

How will a proposed 150% increase in OTP tax affect my prices?

- o In 2009 the federal cigar tax increased from 5¢ to 41¢ per cigar. This resulted in the retail prices of cigars increasing from 50¢ to \$1.00. How has that affected my OTP payments? They have decreased every year since – for a cumulative 13% decline.
- o Currently the average OTP tax I pay Kansas per cigar is 48¢. A 150% increase takes the average OTP tax to \$1.19 per cigar. A \$4 cigar increases to \$4.75.

What will my customer do? 4 options:

- o Not change – relish the opportunity to pay more to help the state of Kansas
- o Shop my store in Missouri – hopefully for me, but Kansas loses sales. Where would you buy gas next time if you noticed the station across the street was selling gas at 75¢ less? Missouri is 1.8 miles away from my Leawood store.
- o Shop on the Internet. The Internet controls 60% of the premium cigar market now and pays no taxes. Dramatic increases in prices cause consumers to look outside their normal buying patterns. My sales are lost completely
- o Not shop - they are not addicted, they may stop shopping altogether

What is the net effect if this passes?

- o My prices rise, my sales volume drops causing net profit to drop dramatically
- o Cost of doing business today are mostly fixed – so costs do not drop proportionately – the squeeze is on

Balancing our state budget is a daunting task. But it should be done in such a way that is equitable and fair for all. Examine the state general fund receipts. Income, sales and use taxes make up 92%. Of the remaining taxes, severance tax and insurance premium tax are the only taxes that contribute more than tobacco. Tobacco makes up 1.5% of the state general fund receipts – more than alcohol – more than all the other taxes. A \$80 million increase will make tobacco the highest tax collected behind income and sales. Smokers make up 20% of the state. This is inequitable, unfair and atrocious. My customers and tobacco consumers in our state did not cause this budget shortfall. Tobacco is already paying more than its fair share. If an excise tax is necessary, there are other fish in our state economy.

Cross border competition is real. Internet sales are real. Bootlegging is real. Putting small businesses out of business to placate bureaucrats and non-profits is real.

Curt Diebel
President
Diebel's Sportsmens Gallery