TESTIMONY

TO: **The Honorable Senator Donovan**
And Members of the Senate Committee on Assessment and Taxation

Mr. Chairman and Members of the Committee:

I want to express my opposition to SB 233, 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 SB 233 most assuredly guarantees the death of the brick and mortar tobacconist in Kansas.

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. 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. 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? All this increased tax will do is drive current *local, taxable* sales to the Internet or 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. When there is an alternative source for the consumer, there is a line beyond which people simply will not go, and I suggest to you, that raising tax on OTP from *ten to twenty-five percent* is one step over that line. I have customers come into my store every week and say "I just need a few cigars until my internet order (untaxed) comes in." Internet sellers already own at least 60% of all premium cigar sales. I therefore implore you to prevent the demise of the family-owned brick and mortar tobacconist.

In 2009, the federal government turned over control of all tobacco products to the FDA. 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.

I also stand in opposition of Section 8 of SB 233 (enforcement tax increase from 8 - 12 %), on behalf of our family owned Jacob Liquor Exchange stores. Retailing is all about price points and perception by the consumer. Every year Anhueser-Busch raises their wholesale price on their products. The result is that we now stock 20 different packages of Bud Light, all to fit a consumer budget price point. When taxes cause a $10.00 item to go from $10.80 to $ 11.20 after taxes, the consumer no longer see a $10.00 purchase, it's now $11.00, so next time the they will look for a less expensive product to fit their budget, be it a different package or size. Unfortunately wine and spirits do not offer unlimited package sizes to adapt to price points, so customers will search for products that fit their taste at a lesser price. Targeted taxes will not produce the anticipated additional income to the state.

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

Respectfully submitted,

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

Jacob Liquor Exchange, LLC
3049 N Rock Road
Wichita, KS 67226

Jacob Liquor Exchange II, LLC
10221 W 21st Street
Wichita, KS 67205

March 24, 2015