



March 24, 2015

To: Senate Committee on Assessment and Taxation
From: R.E. "Tuck" Duncan, Kansas Wine & Spirits Wholesalers Association
RE: SB233

The Kansas Wine & Spirits Wholesalers oppose SB233 — Increasing rates of taxation on cigarettes, tobacco products and alcoholic beverages. This bill provides that KSA 79-4101 is to be amended to increase the liquor enforcement tax by 50% from 8% to 12%. Percentage taxes are regressive and those least able to afford them are adversely affected the most.

- The 12% tax rate will motivate Kansans to make liquor purchases in Missouri where taxes on liquor, cigarettes and gas are lower. For example:

Kansas Enforcement tax: if HB2306 is approved: 12%

Kansas City Missouri: MO state 4.225% + Jackson County 1.250% + KC 2.875% =
Total 8.350%, *That's a 3.65 differential.*

- There are 4 levels of liquor tax already – the enforcement tax is not the only liquor tax.

On spirits: Federal tax \$13.50 proof gallon /typical 80 proof liter (.264) = \$ 2.85

State Gallonage tax \$2.50 liquid gal, on a liter = .66

8% enforcement tax on average \$15.00 liter of spirits = 1.20

10% drink tax on liter (33 drinks @ \$3.50 drink) = 11.55

TOTAL TAXES generated on a \$15.00 liter of spirits = \$16.26

Few other products have as many levels of taxation.

- All wines and spirits and beers purchased by restaurants and bars are subject to the enforcement tax. This increase will be a 4% increase on the cost of goods sold for these businesses, many of which are classified as small businesses, and will be passed on to consumers.

Recently the KC Star published an article that stated: Missouri retailers relish the prospect of higher taxes on smokes and booze in Kansas. (see reverse) Consistently Kansas consumers have paid more liquor taxes each year over the prior year. Recent collections are:

Liquor Tax Revenue

Tax Type	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (6 months)
Gallonage Spirits	9,542,052	10,039,513	11,088,716	10,225,181	5,359,388
Gallonage - Beer	8,325,291	7,771,742	7,522,175	8,172,990	4,208,732
Gallonage - CMB	1,905,212	2,081,419	1,855,093	1,685,221	821,348
Gallonage - Wine	1,363,314	1,735,929	1,555,781	1,818,040	893,158
Liquor Enf. 8%	56,224,767	58,878,961	60,561,426	64,538,260	33,467,222
Liquor Drk 10%	36,050,400	38,158,615	39,258,226	40,619,417	20,597,675
Total Taxes	\$113,411,036	\$118,666,179	\$121,841,417	\$127,059,109	\$65,347,523

There is no justification for this tax increase on a product that is already heavily taxed.
Thank you for your attention to this matter.

Missouri has the lowest taxes on cigarettes in the nation. The Kansas City Star

In Topeka, Kansas Gov. Sam Brownback's plan to help plug a \$648 million budget hole with steep increases in so-called sin taxes faces stiff opposition from powerful business interests. Meanwhile, an hour's drive to the east, Brownback's proposal to boost taxes on booze and cigarettes is getting love from shopkeepers who sell those very products — in neighboring Missouri.

"My store will be busier, there's no doubt about it," Kansas City tobacco store owner Steve Barber predicts if Brownback succeeds in tripling the Kansas excise tax on cigarettes. Barber already can sell smokes \$5 a carton cheaper at his Cigarettes4Less store, 1255 W. 103rd St., than his Kansas competitors. Should the per-pack tax in Kansas increase from the current 79 cents to \$2.29, as Brownback proposes, business can only improve for Barber and others across the border, where Missouri has, at 17 cents a pack, the lowest taxes on cigarettes in the nation. Now his cartons will run \$20 cheaper.

Across the Watts Mill Shopping Center parking lot, Royal Liquors store manager Alan Hagedorn is similarly upbeat about Brownback's proposed 50 percent sales tax rate increase on liquor.

Currently, combined state and local sales taxes in Missouri nearly equal and sometimes exceed the current 8 percent liquor enforcement tax that Kansas charges. Even increasing the Kansas booze tax by half, cross-border prices ought to remain fairly competitive.

"But it would help, even if only in terms of the perception," Hagedorn said of the Brownback plan to boost the rate to 12 percent.

That Kansas retailers will lose business to their Missouri competition is one of the key arguments voiced by those who are against Brownback's tax hike plan. Other opponents include outnumbered Democrats in the Legislature, who cite the regressive nature of sales and excise taxes on consumer products, as well as staunch fiscal conservatives against tax increases of any kind.

But it's the Kansas businesses and industries with the most to lose that are shouting the loudest.

"You're giving consumers lots of incentives to leave Kansas and do business in Missouri," said Ross

Schimmels, vice president of external affairs at Standard Beverage Corp. in Lenexa. Kansas is a big state. Many residents live too far away from the border to make regular trips to buy alcohol and tobacco in neighboring states. **But when 50 percent of all the liquor sold in Kansas is in stores within 50 miles of Missouri, there's bound to be an impact.**

"That would price some of the liquor store owners close to the state line out of the game," says Natalie Bonanno, who owns New Stanley Station Liquors in Overland Park and is a member of the board of the Kansas Association of Beverage Retailers. Missouri liquor store owners felt the reverse effect a decade ago. Sunday was the busiest day for some stores until Kansas removed its ban on Sunday sales. Amy Campbell, the lobbyist for the Kansas beverage dealers, says the tax hike on alcohol alone isn't as worrisome as the growing disparity in a whole menu of taxes Kansas charges consumers when compared with its neighbors. Among the four states with which it shares a border, only Oklahoma has a higher average combined state and local sales tax rate, according to The Tax Foundation in Washington, D.C. Kansas is second only to Nebraska in its tax on gasoline.

Should the proposed tax hikes on alcohol and cigarettes become law, Kansas would jump to No. 1 in both areas above Oklahoma and Colorado, respectively. "Here's the question," said Campbell. "Where's the tipping point?"

If the Brownback administration's budget projections are to be believed, the state isn't there yet.

The document estimates that boosting "consumption taxes" on alcohol and tobacco will net the state an additional \$108 million next fiscal year.

Then, analysts predict, habits will change. Smokers will cut back or quit. Drinkers will buy cheaper brands. And Brownback's number crunchers suggest a \$4 million dropoff to \$104 million the second year, fiscal 2017.

Any tax increase will be a tough sell, even for a conservative Republican governor whose wing of the party controls both legislative chambers. "We're going to have to be dragged kicking and screaming to that," Rep. John Rubin, a Shawnee Republican, told The Star earlier this month. House and Senate leadership recognize the need to make up for steep income tax cuts that they and the

Brownback administration pushed through a couple of years ago. Ultimately, they're counting on the tax cuts to boost economic activity, which would increase state revenue. Until then, some lawmakers would rather balance the books with budget cuts and avoid raising taxes.

"It might be a hard grab for them," said Tom Palace, executive director of the Petroleum Marketers and Convenience Store Association of Kansas. His members will try to make it even harder, as cigarettes are the No. 1 seller inside most convenience stores. "We're going to have a heck of a fight," Palace said.

Along State Line Road, Barber, Hagedorn and their peers will be on the sidelines watching that fight develop in the weeks ahead, while paying little to no attention at yet another presumably fruitless effort in Jefferson City to raise Missouri's cigarette tax. They won't be the only ones in Brownback's cheering section. Proponents of healthy living are hoping the tax hikes go through, too.

The Kansas Health Foundation figures that a steep tax increase on cigarettes could convince as many as 25,000 smokers to kick the habit and dissuade at least that many youths from taking it up. One thing's for sure. Even if the tax hikes are passed and Kansans are tempted to shop more in Missouri, state regulators don't plan on bringing back the infamous "border patrol." Alcoholic Beverage Control agents used to stake out Missouri liquor store parking lots, especially around Christmas, looking for cars with Kansas plates.

Then they'd bust the drivers of those cars as they crossed the state line with even small amounts of booze and tobacco minus Kansas tax stamps. No more. "They haven't watched the border in a long time," said Jack Bondon, president of Missouri-based Berbiglia Wine & Spirits. And aren't likely to in the future, given a tight state budget and ABC employees who have far more important things to do.

"There is no change in how we will be handling liquor enforcement," said Department of Revenue spokeswoman Jeannine Koranda.