



Committee on Assessment and Taxation

February 13, 2017

SB 175

Testimony of Doug Mays

On behalf, of

The Cigar Association of America

Thank you, Madame Chair, and members of the Committee on Assessment and Taxation for allowing me the opportunity to testify in opposition to SB 175. This bill, among other things, increases the tax rate on (OTP) from current Kansas OTP tax rate from 10% of the wholesale price, to 20% - a **100% increase from the current tax rate.**

Cigar and OTP taxes are assessed based the wholesale cost of the product. 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 (see attached).

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

There is little doubt that the proposals contained in SB 175 will result in a huge shift in buying habits by Kansas consumers who, by nature, are relatively frugal and will find ways to save money on purchases of consumables. When a product has a long shelf life, like tobacco does, consumers are often motivated to cross the border to low tax states like Missouri and Oklahoma. They also turn to mail order purchasing.

Times have changed, and so has the method of choice for buying cigars and OTP. The internet is now the cheapest and simplest method to purchase cigars and OTP without paying high taxes. There are countless numbers of aggressive and sophisticated web and catalog based tobacco marketers. Consumers today are internet savvy and require scant encouragement to shop online for less costly alternatives.

In summary, the passage of this plan 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 does is single out and punish Kansans for making a personal choice by purchasing legal products.

I urge you to vote against this tax increase. I would be happy to stand for questions at the appropriate time.