



Testimony in Opposition To SB175

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On Behalf of Swedish Match North America & General Cigar

Senate Taxation Committee

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Chairwoman Tyson:

My name is John Federico and I appear today on behalf of Swedish Match North America (SMNA) and General Cigar. I stand in opposition to the effort to increase the tax on Other Tobacco Products (OTP) from the current rate of 10% to 20%. My clients manufacture cigars, and smokeless tobacco products including moist snuff, loose leaf chewing tobacco and snus.

We stand in opposition to increasing taxes on all tobacco products, but in particular, on OTP. As others have stated, this is a regressive tax that targets and penalizes a certain segment of consumers.

Targeted taxes such as this are hot-button issues with consumers, as evidenced by failed referendum votes this past November in Missouri and Colorado where 3 different proposals to raise tobacco taxes failed. Of particular interest is the failed effort in Missouri, which enjoys the country's lowest tobacco taxes, where voters rejected an increase in tobacco taxes even when the increased revenue would fund important causes such as infrastructure improvements and increased aid to early childhood education. (see attachment)

I respectfully suggest that there should be a distinction made between tobacco taxes and OTP taxes. OTP taxes are particularly inequitable given that taxes on OTP are based on a percentage of the wholesale price and not on a per pack purchase. As such, OTP taxes increase each and every year due to the increase in the wholesale price of the product each year. This is supported by the Kansas Department of Revenue's own data (attached). Please note that the industry average annual price increase for moist snuff over the last 20 years has been 9.2% and cigars have increased 7.4% ANNUALLY over the last 15 years.

The last point I would like to make in support of rejecting an increase in tobacco taxes is that there is already growing downward pressure being put on tobacco sales which impact revenue to the state that I do not believe have been calculated. As part of a recent *Tobacco-21* initiative,

there has been an effort in the northeast part of the state to pass ordinances at the local level prohibiting the sale of all tobacco products to adults under the age of 21. To date, there are 14 Kansas communities that have passed such ordinances, including Overland Park, Olathe, Lenexa and Leavenworth to name a few. I question whether the impact of these measures are part of the calculation by the Department of Revenue when assessing future lost revenue along with smoking cessation and cross-border sales migration.

I respectfully urge you to consider other means by which to resolve our budget shortfall. A targeted tax on consumers who had little to do with creating the problem, and on a product that already incurs annual tax increases, is neither fair nor prudent. Thank you for the opportunity to address the Committee, and I am happy to address any questions at the appropriate time.