

DIEBEL'S SPORTSMENS GALLERY

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SB 376 – Increase in cigarette and Other Tobacco Products Tax.

OPPOSITION

Senator Tyson and Distinguished Committee Members,

My father started our business in 1954. We are in our 64th 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 military. 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.

I am a small business. 75% of my business is cigars. Raising the tax on 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 550% increase in OTP tax affect my prices?

- 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 Kansas OTP payments? They decreased every year for 5 straight years – for a cumulative 13% decline. My 2015 payments were below my 2009. My 2016 payment was finally above - 1% above.
- Currently the average OTP tax I pay Kansas per cigar is 52¢. A 550% increase takes the average OTP tax to \$2.86 per cigar.

What will my customer do? 4 options:

- Not change – relish the opportunity to pay more to help the state of Kansas
- 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 \$1.36 less per gallon? Missouri is 1.8 miles away from my Leawood store. My cigarette business died after the 2015 tax increase. I do not sell cigarettes in my Leawood store.
- Shop on the Internet. The Internet controls 67% 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. The state loses OTP tax – and the sales tax.
- Not shop - they are not addicted, they may stop shopping altogether. I would prefer that Kansas doesn't give them a reason to re-think their discretionary budgets.

What is the net effect if this passes?

- My prices rise, my sales volume drops causing net profit to drop dramatically
- Cost of doing business today are mostly fixed – so costs do not drop proportionately – the squeeze is on. When do I start laying off employees?

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 tax collections. Income, sales and use taxes make up 94%. Income and sales are taxes that are paid by all Kansans. Tobacco makes up 2.5% of the state general fund receipts – more than alcohol – more than all the other taxes. 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 is real.

Curt Diebel

President

Diebel's Sportsmens Gallery