

# **Senate Assessment and Taxation Committee**

## **Kansas Legislature**

Topeka, KS

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Senate Assessment and Taxation Committee Hearing  
A proposal to increase the tax on tobacco products.

**Prepared Testimony By:  
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Greetings ladies and gentlemen of the Kansas Senate Assessment and Taxation Committee. My name is Rich Marianos, and I am a senior law enforcement consultant for RAI Services Company, a subsidiary of Reynolds American Inc. (RAI).

Let me start by telling you a little about my background. I retired from a 27-year career at the Bureau of Alcohol, Tobacco, Firearms and Explosives as Assistant Director. During my ATF career, I conducted, supervised and oversaw investigations into organized crime, counterterrorism, drug trafficking organizations and violent crime.

My ATF experience also includes the position of Special Agent in Charge of the Washington Field Division, and Deputy Chief of ATF's Special Operations Division.

In addition to my duties at Reynolds, I am also an Adjunct Professor at Georgetown University in Washington D.C., where I teach courses in Criminal Intelligence, Political Violence and Terrorism. Let me state that if you cannot tell by my background, crime prevention and security are things that I take very seriously.

This proposal would increase the Kansas state cigarette excise tax rate to \$2.79 per pack, a 116% increase that will push the Kansas cigarette tax rate far higher than any of her bordering states.

In Kansas, the average pack price is estimated at \$5.92. With the proposed tax increase, this would rise to \$8.08. Compare that to Missouri's \$4.36, Nebraska's \$5.81, Oklahoma's \$5.43 and Colorado's \$5.80. It's easy to see why smugglers will find selling their illicit products in Kansas so attractive.

These disparities can provide huge profit opportunities for criminals. For example, a van smuggling 50 cases of cigarettes (3,000 cartons) from Kansas City, Missouri, to Kansas City, Kansas, would have a gross profit in excess of \$111,600. The gross profit from a U-Haul on the same route can be greater than \$1.8 million.

A Mackinac Center for Public Policy study based on 2014 data estimates that roughly 13.40 percent of the cigarettes consumed in Kansas are potentially imported from other states. The Center

also predicts that if the proposed \$1.50-per-pack tax increase is adopted, Kansas legal cigarette sales would drop by 37 percent while the percentage of cigarettes smuggled into the state would triple.

With the influx of commercially smuggled product from nefarious entities comes an increase in violent crime. Those who participate in large-scale cigarette smuggling are often involved with other forms of illicit activity involving drugs, guns and even human trafficking.

A growing number of criminals realize the profit potential from cigarettes. Armed robberies of convenience stores where the criminals bypass the register and go straight for the cigarettes increased 80% nationwide in the last year. The disparate tax rates on cigarettes make them too lucrative for criminals to pass up.

These kinds of armed robberies are a threat to public safety, and that's a threat to public health. If the public doesn't feel safe, then overall public health is in jeopardy.

Virginia realizes the potential harm of illicit trade and, even though their low tax rate makes them an export state, in recent legislative sessions, the Virginia State Crime Commission has endorsed several measures aimed at curbing organized interstate cigarette trafficking.

And let me be clear, those who smuggle cigarettes from other states do not age-verify those purchasing their illicit product. This could place Kansas' youth in a precarious position and could jeopardize the efforts to date to prevent Kansas' youth from smoking.

I strongly urge the committee to study what is occurring with regard to cross-border cigarette sales among states with differing tax rates, enforcement and the operational needs of the distribution community.

I urge the members of this committee, and the legislature as a whole, to consider the unintended consequences that a cigarette tax increase will have on cigarette smuggling and other illicit activities.

Thank you for your time and attention.