

MEMO TO: Senate Assessment and Taxation Committee
FROM: Thomas M. Palace, Executive Director of the Petroleum Marketers and
Convenience Store Association of Kansas
DATE: March 22, 2018
RE: SB 376 Tobacco Tax Increases

Mr. Chairman and members of the House Taxation Committee: My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 300 independent petroleum marketers and convenience store retailers throughout Kansas.

I have also been given authority to speak on behalf of the Retail Grocers Association (RGA) and Kansas Food Dealers Association (KFDA).

I appreciate the opportunity to appear before this committee on the proposed tax increases for tobacco and other tobacco products.

PMCA, RGA and KFDA oppose SB 376.

The tax increases approved by the Kansas Legislature in 2015 had a big impact on C-Stores located along state borders. Tobacco excise tax was increased \$.50 per pack (now \$1.29) and the state sales tax went from 6.15% to 6.5%. HB 2231 also includes a tax increase (from 10% -65%) for "other tobacco products" (smokeless tobacco). It is a sure bet that adding \$1.50 to the excise tax will have an even bigger impact on retailers.

Master Settlement Funds

SB 376 would create a \$5 million Cigarette and Tobacco Cessation Fund. Kansas has been receiving \$50-60 million annually from proceeds of the Master Settlement Agreement. I am told that with the funds Kansas receives from the tobacco Master Settlement Agreement that approximately \$900,000 is used for smoking cessation. My first question? Why is the funding so low? If a smoking cessation fund is important and needed why not use some of the funds Kansas now receives from the tobacco companies?

Border Issues

Convenience store owners in Kansas who compete with retailers in bordering states will be at a tremendous competitive disadvantage if the legislature passes the tax increases listed above. The current excise tax for cigarettes at \$1.29 cent per pack already has Kansas retailers at a competitive disadvantage with our neighboring state, Missouri. And the additional increase only exacerbates the problem. Missouri has the lowest tax rate; \$.17 per pack, Oklahoma's tax is \$1.03, Nebraska \$.64 and Colorado \$.84.

With the proposed change the new tax rate will rank Kansas 9th in the country with the highest tobacco excise tax rate.

Tobacco sales at convenience stores account for 32% of gross inside store sales...the number one inside store product. Consumers usually purchase individual packs and they also purchase ancillary products like: coffee, pop, sandwiches, Lottery tickets, etc. Kansans living near the border may, and many times do, opt to avoid paying Kansas taxes by crossing state lines where the tax is lower. When this occurs, both the retailer and the state lose. The retailer loses the sale and the state loses sales tax revenue. I have included a document that illustrates the decline in sales in KS and increased sales in MO.

Raising tobacco excise taxes provides an uncertain revenue source. The Tax Facts booklet provided by the Kansas Legislative Research Department validates that tobacco revenues are approximately \$1.4 million down from last year. (see attachment)

Raising tobacco excise taxes also burdens low-income earners. Cigarette excise taxes are regressive because they most negatively affect lower-income adult smokers. Based on data from the Center for Disease Control and Prevention, 34.5% of adults in Kansas who earn less than \$15,000 are smokers, whereas only 10% of adults who earn \$50,000 or more are smokers. Raising taxes will unfairly further burden low income earners.

Tobacco sales and gas sales are the “bread and butter” of the convenience store industry. Consumers usually stop at a convenience stores because service is quick, and the customer can be in and out of the store in less than 1 minute. The increased price of cigarettes has the potential of changing peoples’ buying patterns, thus reducing store revenues for all products sold in convenience stores....as well as sales tax for the State of Kansas.

Clearly smokers have options when it comes to purchasing cigarettes. The tax increases proposed in SB 376 will surely change buying habits once again. And it appears the surrounding states will be the benefactors.

I have also included a number of documents that show the excise tax rates for each state, the impact the \$.50 2015 increase had on Kansas retailers.

Mr. Chairman the tax increases listed in SB 376 are excellent economic development for our neighboring states!

We urge the committee to oppose SB 376.

Thank You!