Cigar Château

TESTIMONY

TO: The Honorable Steven Johnson
And Members of the House Committee on Taxation

Mr. Chairman and Members of the Committee:

I want to express my opposition to HB 2231 specifically the proposal to increase tax on "other tobacco products" (OTP) from *10 to 65 percent,* to create a Cessation Fund, on behalf of Cigar Chateau, a family-owned tobacco shop in Wichita. Whether it is immediate or gradually over time, the passage of the OTP tax increase in HB 2231 most assuredly guarantees the death of the brick and mortar tobacconist in Kansas.

I understand the allure of targeted taxes, especially on items that our society has deemed unnecessary for daily living. Targeted taxes **do not work**. The International Premium Cigar and Pipe Retailers Association (IPCPR) state affairs committee tracked and monitored like tax increases across the country and the effects of their implementation. The results? States that increased the OTP tax *lost* tax revenue, and many then rescinded or reduced increases. Proponents never acknowledge the realized tax increase collections of the first year is due to the imposed floor tax, not the tax increase.
There are less than *fifteen* family-owned brick and mortar tobacco shops in Kansas that sell "premium handmade cigars" and would thus be the most affected by the OTP tax increase in HB 2231. This targeted tax is a miniscule tick in the total tobacco tax revenue stream. My best guess? It is less than 3% of the state's total tobacco tax revenue.
We, as business owners and citizens of this state, are constantly bombarded with the mantra "buy local; keep businesses in Kansas." But how, exactly, do you suggest we do that when you choose to tax us right *out* of business? Are we, as purveyors of certain "sin tax" items, somehow entitled to less tax protection than the local bookstore? All this increased tax will do is drive current *local, taxable* sales online (estimated to be over 65% nationwide) over state lines. Therefore, nobody wins: locally-owned tobacconists are forced out of business and the state is denied not only the increase in taxes but also the *existing* OTP revenue and sales tax. So, who gets the last laugh? Online sellers already sell over 65% of all premium cigar sales.

In 2009, the federal government turned over control of all tobacco products to the FDA. There are, at present, two bipartisan-supported bills before Congress, HR564 and S294 that propose to exclude "premium handmade cigars" from FDA control. Those Congressmen that support these bills recognize that "premium handmade cigars" are such a small segment of the tobacco industry that strict regulation would virtually eliminate that portion of the industry. Kansas has received an unknown windfall since cigar manufacturers have had to raise their wholesale prices 3-5%, compounded over the past several years to pay for increased FDA regulations.

Can I sit here and argue to you that "premium handmade cigars" are necessary for the lives of Kansas' citizens? Not really. But what I *can* tell you is that cigars create a lifestyle, a lifestyle for many Kansans and currently provides revenue for the State of Kansas. Passing HB 2231 and raising tax on "other tobacco products" from *10 to 65 percent* is one step over that line. The blowback will be swift, and it will be severe. And, even more certainly, the State of Kansas will be the loser.

I therefore implore you to prevent the demise of the family-owned brick and mortar tobacconist. Think of your constituents; those who support the State of Kansas through their purchase of "premium handmade cigars" and pipe tobacco; those who, more importantly, have entrusted their livelihoods to the free market system and support their families by operating locally-owned businesses.

Please, consider your actions carefully. Thank you.

Respectfully submitted,

Tom Jacob
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