

## **Bill Introduction**

Clarifying sales tax in machinery and equipment.

## **Informational Hearing on Governor's Tobacco and Alcohol Tax Proposals**

### **Cigarette Tax Proponents**

Dr. Roy Jensen, Director, University of Kansas Cancer Center

Cancer is the leading cause of death in Kansas.

Nothing can have a bigger impact on cancer incidence rate or death rate than decreasing the smoking rate for those in the state.

31% of all cancer is attributable to tobacco.

Rep. Wolfe-Moore: I asked about the option of successive smaller tax rate increases over several years. I was told that it doesn't work because cigarette companies can offer discounts and people don't notice the sticker shock as much.

Dr. Jensen: That's correct. If there is a fairly minimal increase in the price, it doesn't impact people's smoking as much.

Rep. Williams: Since we raised the cigarette tax \$0.50 in 2015, did we see a decrease in smoking?

Dr. Jensen: The \$0.50 increase caused the smoking rate to go down a little bit, although we don't have great data on that. Revenue has significantly increased and hit our target projections. If you don't increase it by a significant level, the impact on smoking rates is minimal.

Conley Cornell, Coffeyville, KS

My dad was a rodeo clown and tobacco user. He tried many times during his life to quit. At the same time he was trying to quit, the tobacco industry was trying to make sure he couldn't by increasing the amount of additives and nicotine in their products.

Describes her father being a rodeo clown and knowing he was okay when she would hear laughter from the crowd. Describes when they x-rayed her father and found cancer. Describes going through the process of her father dying. "What makes it even harder is that what killed him is still killing other people. People are still getting rich off of tobacco products. I'm tired of paying my unfair share. Tobacco taxes should cover the costs that big tobacco passes on to the rest of Kansas."

Hilary Gee, American Cancer Society Cancer Action Network

Increasing the tax on cigarettes would reduce healthcare costs and prevent death and suffering. \$1.50 would be better than \$1.00. \$1.50 would bring in more than \$80 million in the first year and a comparable increase in other tobacco products would increase another \$30 million. This tax prevents future healthcare costs. Each year, Kansas spends \$1.1 billion on smoking related healthcare costs. Each household pays \$799? annually to cover government expenses due to healthcare costs. This tax alone will prevent 3,500 pregnancies and births from being affected by smoking.

Mary Reed Spencer, National Multiple Sclerosis Society

While the Governor has proposed a \$1.00 per pack increase. The National MS Society is part of a coalition that supports a \$1.50 per pack increase. MS is a chronic and often devastating disease of the central nervous system that disrupts the flow of information from the head and body. Situations vary from tingling of the extremities to blindness and paralysis. Mother was diagnosed with MS in 1962 at the age of 35 and was unable to walk by the age of 40. Mother had a progressive form of MS for which there is still no treatment available. Compared to non-smokers, smokers are two times more likely to be diagnosed with MS, and more likely to be diagnosed with progressive MS. Second hand smoke exposure as children has also been responsible for the development of MS in adults. The National MS Society believes a small decrease in smoking would significantly increase the quality of life of people with MS.

Ashley Ray, American Lung Association

Cancer claims 4,400 adult lives every year in Kansas. For every Kansan who dies from tobacco use, there are others who suffer a tobacco related illness or disability. For every 10% increase in the real price of tobacco, there is a reduction in the number of youth who smoke by 5%. Certain smokers are more responsive to a change in the price of changes in cigarettes.

### **Revenues from Tobacco Taxes**

Rep. Wolfe-Moore: For Hilary, you gave some revenue projections for what this would bring in. We discussed a lot on what those revenues would be last time. How accurate would those revenue projections be over the past couple years?

Gee: We have been meeting and exceeding the CRE estimates for tobacco and alcohol taxes.

### **Cigarette Tax Opponents**

Rich Marianos, Reynolds American

Law enforcement and ATF background. Though I am well aware of the public health concerns, "I also want to bring the committee's attention to crime and narcotics trafficking." Gangs and terrorists have gained a significant foothold in communities by smuggling tobacco products. Just recently, a couple was arrested for transporting 620,000 cartons of tobacco. Recently armed robbers were caught burglarizing convenience stores for their tobacco products. A Russian organized crime group scammed a significant amount of money from New York. Refers to Minnesota and says that now 1 out of 3 cigarettes there are being smuggled from outside of the state. Recommends tougher enforcement along the borders, stronger penalties, and a greater political awareness to chip away at the revenue problem.

Curt Dieble, President of the People's Sportsman's Gallery

Two stores in the Kansas City area. They sell premium cigars. Currently pays \$0.52 per cigar in OTP payments. The Federal government increased taxes of \$0.05 to \$0.41. Took them seven years to make back the amount of dollars that they sent to the state in a year's time.

Thinks his customers will do one of the following things:

1. They will not change their behavior. That is not realistic.

2. They will flock to the border
  3. They will purchase their products on the internet, causing state to lose revenue.
- Increasing tobacco taxes by the amount proposed would make tobacco tax the third largest tax that the state collects behind income and sales tax.

John Federico, General Cigar

The OTP tax is regressive that targets a specific category of consumers. Refers to failed referenda in Missouri and Colorado to increase tobacco tax. Missouri currently has the lowest tobacco tax and voters rejected a tobacco tax increase even when it would go to highways and early childhood education. Asks that a distinction be made between OTP and cigarette taxes because OTP is based on a percentage of wholesale prices. As such, OTP taxes increase every year due to increase in wholesale prices. Do not put this tax on a small segment of consumers to solve this problem.

Doug Mays, Cigar Association of America, Inc.

The OTP is the only tax on which Kansas and Missouri have parity. Kansas businesses will lose business over the internet. Over 60% of Kansans buy OTP over the internet now. The legislature has chosen every time not to raise the OTP tax. Raising it 65% is frankly, "crazy."

Whitney Damron, Swisher International

OTP taxes increase each and every year because it is a tax on the wholesale price. The state has long chosen not to increase OTP taxes when they increase other tobacco taxes.

Tom Jacob (written only)

### **Smuggling**

Rep. Sawyer: For Rich Marianos, you mentioned when you spoke at the mic that one-third of the people that buy the tobacco products are from outside of the state?

Marianos: That was said to me by some law enforcement when I was there recently.

Rep. Sawyer: Where are they getting it from in Minnesota?

Marianos: I can look into that. The situation in Minnesota is simple. They raised their taxes so high that criminals from Minnesota are going to surrounding states and smuggling tobacco back in. Minnesota is over \$3 per pack. Surrounding state taxes are less than half of that amount.

### **Opponents of Alcohol Enforcement Tax Increase**

Kevin Timmons, Nick and Jake's Restaurant in Overland Park

Also owns restaurants in Missouri. Makes more per drink in Missouri. There is a myth that Johnson County is not concerned about pricing. The enforcement tax increase will not only be passed on the restaurant owners, but it will be passed on to consumers. Kansas has one more set of liquor taxes than Missouri. Not only worried about people going across the state line. Worried about having to charge \$14 for a hamburger and having fewer customers able to purchase their products.

Talk of the Town, Overland Park and Leawood

Garozzo's Italian Restaurant, Overland Park

Phillip Bradley, Craft Brewers Guild of KS and other brewer groups

Alcohol taxes are compounded when you pay the final sales tax.

The never sunseting sales tax hits alcohol sales, and the sales tax increased again last year. Their organization did not appear in opposition to the LLC tax exemption, but it will impact their industry as well.

They have nowhere to pass on the tax increase. If it becomes too expensive to purchase beer or liquor at establishments, people will stay home.

Brad Smoot

Distilled Spirits Council. 150 of the nation's largest distilleries. Produces about 70% of the distilled products sold in the United States. Asked their economist what the effect of doubling the liquor enforcement tax would do. Distilled spirits are some of the most highly taxes products in the United States. Government collects \$2.00 in taxes for every \$1.00 in sales of spirits. Increasing the liquor enforcement tax would lead to a decrease in sales, which will lead to a decline in profits, jobs, and tax revenues. Along 50 miles of the Kansas Missouri border, it will lead to a decline in sales. A loss of \$80 million in retail sales and 1,000 Kansas jobs.

Jeremy Horn

Owner, Wichita Brewing Company, Secretary and Treasurer of Kansas Brewer's Guild

Over 99% of the revenue generated at production facility is subject to liquor enforcement tax. Every 1% increase in liquor enforcement tax leads to a 1% reduction in their profits. If this tax were to be passed, they would have an additional tax burden of \$55,000. Part of that cost would be passed on to consumers and they would eat some of it. "We pay a meaningful amount of taxes already." We pay a gallonage tax when we make the beer, pay sales and liquor enforcement taxes when we sell the beer, and income tax if we are fortunate to have any.

Merchant's Pub and Plate, Lawrence

Three year old business. Small margins. Source products from as many local producers as possible, including food and alcohol. If they were to have to go out of business, it would impact 30 people who rely on them. Would also impact 16 employees. Every day, we are a part of a unique cultural district in downtown Lawrence that relies on that mix of businesses and restaurants.

Larrie Ann Brown, Wine Institute

Most of my testimony has already been stated.

Jason Watkins, Kansas Beer Wholesalers Association

Refers to economic impact study done by Dunham and Associates. This is a doubling of the liquor enforcement tax. You see some information that it is an increase of 8%. Going from 8% to

16% is a doubling of the tax. Missouri pays a lower gallonage tax and it is the only liquor tax paid in Missouri. They do charge a sales tax, but overall, the taxes are a lot lower in Missouri. Refers to evidence that proves liquor enforcement tax increase will cause job losses. By the Department of Revenue's own admission, this would decrease sales by 11.2%. I can't think of a single one of you who would stand before your constituents and say that you support a tax that would decrease sales by 11.2%.

Amy Campbell, Kansas Association of Beverage Retailers

All of our members are Kansans. You have to be a Kansas citizen to own a beverage retail store. When we had the economic downturn in 2007 and 2008, there was a distinct change in customer buying patterns. Did they stop buying alcohol? No. They started buying alcohol at a lower price and they went across state lines. This would cause a loss of \$95 million for small businesses in the state. Some of you may remember the posters that went out a few years ago. 40% of a price of a glass of beer is tax. Enforcement tax receipts to every county in the state. Those counties that are closest to the Missouri county line will show a decrease in sales. At some point, you make this decision for consumers. Missouri taxes are not just lower on alcohol and tobacco, they are lower on fuel and food. We complain about losing business to surrounding states. This is where we can do something about it. For the sake of our retailers' consumers, we ask you not to increase the tax.

### **Are All Alcoholic Beverages Taxed the Same?**

Rep. Rahjes: I think that Mr. Bradley might be the best to answer this. Do we treat all alcohol the same--distilled liquors, wines, beers?

Bradley: All alcohol is treated the same as far as enforcement. As far as taxes, there is a different rate of taxes for a gallon of bourbon and a gallon of beer.

Rep. Rahjes: Does that mean distilled liquors are taxed higher?

Bradley: Yes. The Federal folks take a gallonage tax based on what kind of alcohol it is. The state takes a gallonage tax based on what kind of alcohol it is. The state takes an enforcement tax and then the state takes a liquor sales tax.

### **Loss of Business Across the State Line**

Rep. Corbet: It seems like we kind of forgot that money can walk. Whether you put a little liquor store or a small restaurant out of business, it seems like we're heading toward pushing a lot of business out of state.

Bradley: Our numbers don't account for Wichita consumers that go south. Refers to friend who goes to the Plaza for dinner and buys groceries, fuel, and cigarettes at the same time.

### **Liquor Taxes Versus Small Business Taxes**

Rep. Johnson: Do you have a preference for which tax is worse? Would you prefer this or the income tax?

Bradley: If you were sick and needed a blood donation, you could ask every one of your friends to give you a drop. If you try to target one industry, you're not going to be asking for a drop, you're going to be asking for a pint. We prefer broad-based taxes.

## No Proponents of Alcohol Enforcement Tax Increase

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