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Testimony re: SB 376
Senate Assessment and Taxation Committee
Presented by Ronald R. Hein
on behalf of
RAI Services Company
March 22, 2018

Madam Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for RAI Services Company.

RAI Services Company is a subsidiary of Reynolds American Inc., which is the parent company of R.J. Reynolds Tobacco Co., the second-largest U.S. tobacco company; American Snuff Company, the second-largest manufacturer of smokeless tobacco products; Santa Fe Natural Tobacco Company, manufacturers of Natural American Spirit tobacco products; Nicovum USA, Inc. and Nicovum AB, which market innovative nicotine replacement therapy (NRT) products under the Zonic brand name in the United States and Sweden, respectively; and R.J. Reynolds Vapor Company.

Based on the data set out below, increasing the tax on tobacco does not represent good public policy for Kansas. Making the future revenues of Kansas dependent on a declining revenue source, targeting lower income Kansans to carry the burden of government expenditures which benefit all Kansans, pursuing a tax which encourages Kansas residents to purchase their products in neighboring states, and placing economic losses on convenience stores and other retailers along our Kansas borders is not good tax policy.

Increasing the tax on cigarettes is bad POLICY, but increasing the tax on other tobacco products (OTP) represents an even worse policy. It is well established that using tobacco products which do not involve combustion of tobacco has less risk of harm than using tobacco products involving combustion. So to increase the OTP tax six-fold plus provides an incentive for tobacco users to choose tobacco involving combustion rather than the less risky use of tobacco products NOT involving combustion. That is extremely bad policy from a healthcare perspective in addition to the arguments raised above.

I specifically offer no testimony or comments relating to the use of tobacco revenue for tobacco cessation.

Increasing the State Cigarette Tax will result in Kansas losing revenue to Border States

- Higher Kansas cigarette taxes shift sales to border states and promote illegal activity
- In the year after the 2003 state cigarette tax increase, Kansas lost an estimated \$43 million to neighboring states with lower cigarette tax rates.
- With the current Missouri cigarette tax at \$.17/pack, if the Kansas cigarette tax is raised to \$2.29 per pack a smuggler could make approximately \$1 million by transporting one tractor trailer load of cigarettes from Missouri to Kansas.
- Increases in illicit market activities and revenue declines in both the Kansas sales tax and corporate income tax revenues (due to reduced cigarette sales and subsequent retailer profits) further dilute tax revenue collected.
- Tobacco and other items purchased with tobacco make-up 48% of in-store sales at convenience stores. The National Association of Convenience Stores reports that for every dollar of cigarette sales, a retailer generates \$30 in additional sales.
- When smokers go across the border to buy cigarettes, they also purchase gas, soda, snacks, etc. This means lost customers, lost sales and lost profits to Kansas businesses.

Increasing the State Cigarette Tax unfairly targets hard working Kansans

- Increases to the state cigarette tax would unfairly target hardworking Kansans who earn less than \$25,000 annually, with such low income Kansans paying 45% of the increase.
- Why should low income taxpayers shoulder the burden of state expenditures which benefit all Kansans?
- The state just increased the cigarette tax in 2015, thus increasing the tax burden on lower income Kansans.

Increasing the State Cigarette Tax Harms the State Economy

- Higher cigarette taxes cause businesses to close and jobs to be lost
- The year following the 2015 \$.50/pack cigarette tax increase, stores selling cigarettes had 2,600 fewer employees and paid \$2.3 million less employee wages.
- Retailers lost \$20.2 million in sales after Kansas raised its cigarette tax in 2003.
- As retailers lose sales to border states, to Internet sales, or to illicit activity, retailers must find ways to survive that often hurt the state's economy, including: closing stores, laying off employees or increasing prices on non-tobacco merchandise consumed by non-smokers.

I urge you to oppose SB 376 and any tax increases on cigarettes or any tax increases on other tobacco products or the Kansans who use those products.

Thank you for permitting me to submit this written testimony.

THE TOP REASONS WHY A HIGHER CIGARETTE TAX IS BAD FOR KANSAS

ONE

INCREASING THE STATE CIGARETTE TAX WILL RESULT IN LOST REVENUE TO BORDER STATES.

- Higher Kansas cigarette taxes shift sales to border states and promote illegal activity.
- In the year after the 2003 tax increase, Kansas lost an estimated \$43 million to neighboring states with lower cigarette tax rates.
- With the current Missouri cigarette tax at 17 cents per pack, if the Kansas cigarette tax is raised to \$2.29 per pack a smuggler could make approximately \$1 million by transporting one tractor trailer load of cigarettes from Missouri to Kansas.
- Increases in illicit market activities and revenue declines in both the Kansas sales tax and corporate income tax revenues (due to reduced cigarette sales and subsequent retailer profits) further dilute tax revenue collected.
- Tobacco and other items purchased with tobacco make-up 48% of in-store sales at convenience stores. The National Association of Convenience Stores reports that for every dollar of cigarette sales, a retailer generates 30% more in additional sales.
- When smokers go across the border to buy cigarettes, they purchase gas, soda, snacks, etc., which means lost customers, sales and profits to Kansas businesses.

TWO

INCREASING THE STATE CIGARETTE TAX UNFAIRLY TARGETS HARD WORKING KANSANS.

- Increases to the state cigarette tax would unfairly target hardworking Kansans who earn less than \$25,000 annually. Low-income Kansans would pay 45% of any proposed cigarette tax increase.
- The state just increased the cigarette tax in 2015, thus increasing the tax burden on lower-income Kansans.

THREE

INCREASING THE STATE CIGARETTE TAX HARMS THE STATE ECONOMY.

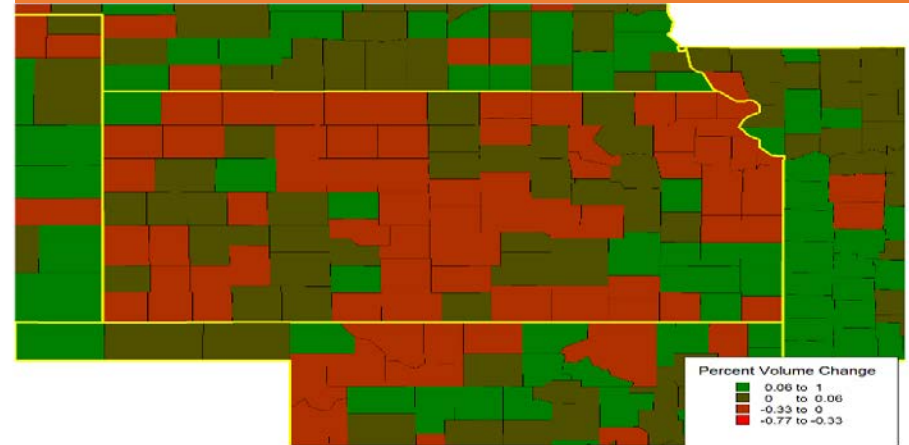
- Higher cigarette taxes cause businesses to close and jobs to be lost.
- The year following the 2015 \$0.50/pack cigarette tax increase, store closures lead to 2,600 fewer employees and \$2.3 million in lost employee wages to Kansas convenience stores.
- Retailers lost \$20.2 million in sales after Kansas raised its cigarette tax in 2003.
- As retailers lose sales to border states, to Internet sales, or to illicit activity, retailers find ways to survive that often hurt the state's economy, including; closing stores, laying off employees or increasing prices on non-tobacco merchandise consumed by non-smokers.

HIGHER KANSAS TAXES SHIFT SALES TO BORDER STATES & PROMOTE ILLEGAL ACTIVITY

Revenue projections from cigarette tax increases often fail to account for cross-border and illicit sales, causing Kansas to forfeit tax revenue to other states.

In the first year after the state's 2003 state excise tax increase, Kansas forfeited \$43 million of cigarette excise tax revenue to bordering states.

TAX REVENUE LOST TO CROSS-BORDER ACTIVITY






Higher cigarette taxes invite illegal activity. If Kansas raised its tax by \$1 to \$2.29 per pack, a smuggler could make approximately \$1 million by transporting one tractor trailer load of cigarettes from Missouri to Kansas.

Excise Tax Rates Per Pack

Kansas	Missouri
\$2.29	\$0.17

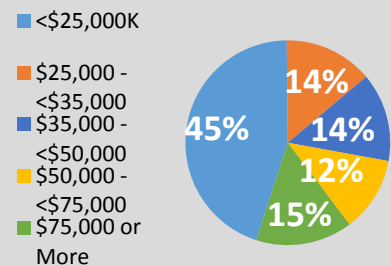
MISSOURI TO KANSAS PROFIT POTENTIAL

	10 CASES @ \$13K
	50 CASES @ \$64K
	800 CASES @ \$1M

HIGHER CIGARETTE TAXES UNFAIRLY BURDEN KANSAS' LOW EARNERS

Tobacco taxes are highly regressive. Because those at lower income levels have a higher incidence of smoking, an increase to Kansas' state excise tax (SET) on cigarettes would unfairly target and massively burden hardworking Kansans who least can afford it – those making less than \$25,000 per year. Why should low income taxpayers shoulder the burden of state expenditures which benefit all Kansans?

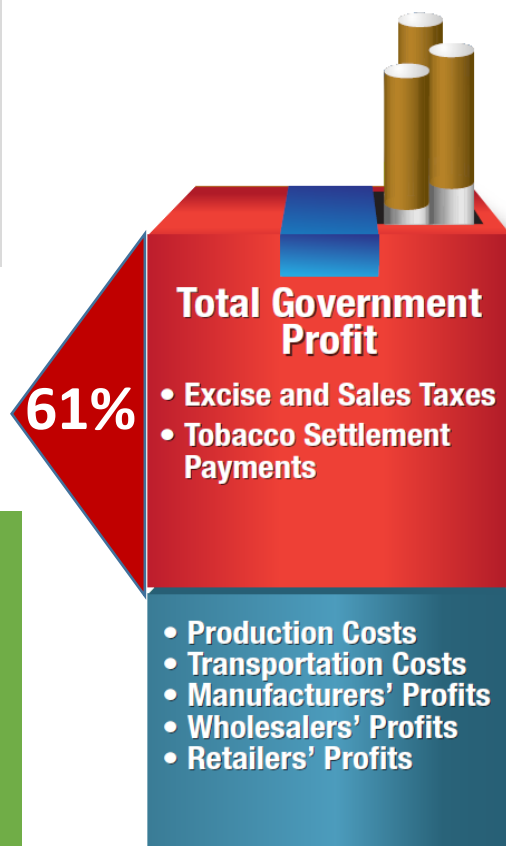
PORTION OF CIGARETTE TAX PAID BY INCOME LEVEL



45% of additional tax revenue would be funded by those making less than \$25,000/year.

Higher cigarette taxes reduce the money adult smokers have to spend on other items including recreation, entertainment and other expenses which will have an impact on the broader state economy.

In Kansas, government would increase its profit on a pack of cigarettes from 54% to 61%.



HIGHER CIGARETTE TAXES CAUSE BUSINESSES TO CLOSE AND JOBS TO BE LOST

As retailers lose sales to border states or to illicit activity, retailers must find ways to survive that often hurt the state's economy, including: closing stores, laying off employees or increasing prices on non-tobacco merchandise consumed by non-smokers.

Tobacco and other items purchased with tobacco make-up 48% of in-store sales at convenience stores. The National Association of Convenience Stores reports that for every dollar of cigarette sales, a retailer generates \$30 in additional sales. As customers find alternative sources and cheaper for cigarettes, retailers are forced to make difficult decisions to survive.

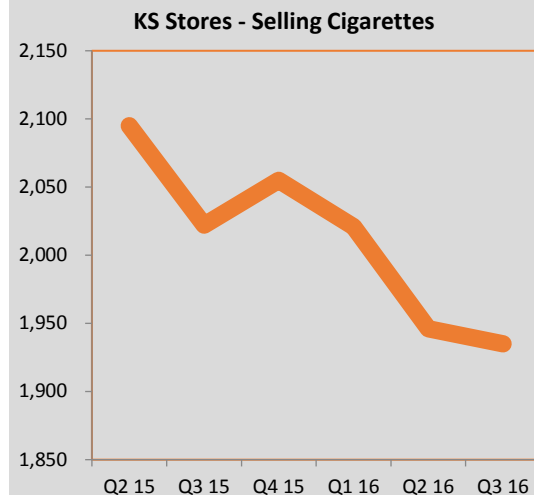
The year following the 2015 50¢ tax increase:

The number of employees in stores selling cigarettes decreased by 2,600.

Employee wages in stores selling cigarettes decreased by \$2.3 million.

As an alternative to closing stores or laying off workers, stores may also raise prices on other products like milk and eggs. This hurts the community since convenience stores in some areas serve as the primary source of groceries.

CHANGE IN KANSAS CONVENIENCE STORE COUNT FROM 2015 TO 2016 BY COUNTY



KANSAS EMPLOYEE WAGES IN CONVENIENCE STORES SELLING CIGARETTES Q3 2014 – Q3 2016

