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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 895 HD 1
RELATING TO TAX ON TOBACCO PRODUCTS OTHER THAN CIGARETTES**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 27, 2009

TIME: 12PM

ROOM: 308

This measure, among other things, proposes to increase the tobacco tax on non-cigarette tobacco items. This measure also creates a new special fund.

The House Committee on Health amended the measure's effective date.

The Department of Taxation (Department) takes **no position on the tax provisions** in the measure; however **would prefer that any tax increases similar to those in this measure be deposited to the benefit of the general fund rather than a special fund.**

Creation of new special funds will not help with this year's budget constraints. Regardless of the merits of the special fund proposed in this legislation, the Department cannot support a tax increase of this kind to be deposited into a special fund. Any sin tax increase this session must be deposited to the benefit of the general fund. However, in the interest of resolving the State's budget issues this session, the Department recommends that this measure be passed out of committee for further discussion.

Assuming a current effective date, this bill will result in revenue gain in FY 2010 (8 months w/ 1-month lag) of \$1.2 million; a gain in FY 2011 and after of \$1.75 million, per year for the Community Health Center Special Fund.

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 895, H.D.1

February 27, 2008

RELATING TO TAX ON TOBACCO PRODUCTS OTHER THAN CIGARETTES

House Bill No. 895, H.D.1, increases the tobacco tax on tobacco products other than cigarettes from 40% to 60% of the wholesale price and deposits 33.3% of the proceeds collected into the community health centers special fund.

As a matter of general policy, we are opposed to the practice of revenue earmarking for specific purposes. This arrangement will, in effect, remove any proposed funding increases from the customary established budgetary process whereby all requests for funding must be justified and compete for limited public resources.

The Department of Taxation estimates this measure would result in a revenue gain of \$1.2 million in Fiscal Year 2010 and then \$1.75 million annually thereafter for the special fund.

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REVISED TESTIMONY

SUBJECT: TOBACCO, Increase tax; disposition of revenues

BILL NUMBER: HB 895, HD-1

INTRODUCED BY: House Committee on Health

BRIEF SUMMARY: Amends HRS section 245-1 to amend the definition of "tobacco products" to include smokeless tobacco and pipe tobacco.

Amends HRS section 245-3 to increase the tax on the wholesale price of tobacco products from 40% to 60%.

Amends HRS section 245-15 to provide that after September 30, 2009, 33 1/3% of the amount of tax collected on tobacco products other than cigarettes shall be deposited into the community health centers special fund.

EFFECTIVE DATE: July 1, 2020

STAFF COMMENTS: The proposed measure increases the tax on tobacco products other than cigarettes and diverts 33 1/3% of the amount collected on tobacco products other than cigarettes into the community health centers special fund. The measure also provides that smokeless tobacco and pipe tobacco shall be subject to the tobacco tax.

While lawmakers and taxpayers may believe this earmarking of the tobacco tax will insure that the designated programs will be funded into the future, it should be remembered that the rising cost of the product may, in fact, jeopardize funding of these programs. The state cigarette tax is scheduled to rise to \$2.60 per pack by the year 2011. In addition, with the federal government's newly adopted increase of \$1.00 per pack, the tax per pack of cigarettes in Hawaii will rise to \$3.60. As the product becomes more expensive, there will, no doubt, be a reduction in consumption or more untaxed product purchased. This, in turn, will jeopardize the funding of the specified programs making this resource less and less dependable as a funding mechanism for the earmarked programs.

However, this proposal highlights one of the distortions that occurs when product price increases and consumption either decreases or in the case where the tax is based on the cost or value of the product, tax collections will be adversely affected. Until 1993, all tobacco products were taxed at a rate of 40% of the wholesale value of the product plus the 0.5% general excise tax rate and, of course, the 4% general excise tax at retail. When the tax on cigarettes was converted to a per unit basis in 1993, it put all cigarettes, regardless of value, on parity. So inexpensive product was taxed at the same rate as more expensive product even though the difference in cost may have been attributed only to the cost of marketing and advertising the more costly product. As lawmakers increased the tax per pack over the

years and the cost of making the product also increased the retail price, smokers had three choices, either pay more for their preferred brand, quit smoking, or trade down to a less costly product. While quitting smoking will definitely spell a loss in tax revenues for the state, trading down to a less costly brand will not.

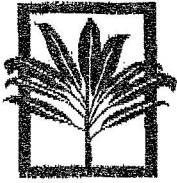
This is an important point to note with respect to all other tobacco products. While this measure increases the tax on all other tobacco products from 40% to 60%, lawmakers should consider restructuring the way other tobacco products are taxed to insure stability in the collection from the sales of these products. Instead of continuing to set the tax as a percent of the wholesale value, consideration should be given to moving to a per unit approach like the taxing of cigarettes. A review of what other states impose indicates that while some products continue to be taxed on an ad-valorem basis, smokeless tobacco products are taxed on the basis of weight. This would insure that all such tobacco products are taxed in the same manner regardless of their wholesale price. Such is the case with the cigarette tax which is levied on a per unit basis. There are some 14 states which already employ the weight approach for smokeless tobacco. In the most recent conversion to weight based taxes on smokeless tobacco products, New Jersey experienced a 19% increase in revenues from this product.

In making the conversion to so many cents per ounce, lawmakers may want to utilize the current tax collected on the most expensive product and divide that amount by the number of ounces. While this will result in an initial bump in collections as the tax on less costly product will see an increase, it will bring parity to these types of products and stabilize collections as users migrate to less costly brands or products as the cost rises.

While the weight approach is now employed for other products, lawmakers may want to consider studying how other tobacco products which are currently subject to the 40% ad valorem imposition can be taxed in the alternative. That alternative should be designed to lend stability to revenues produced from these other tobacco products and gives parity to all products of the same nature without regard to wholesale value.

While not contained in this bill, the notion that the state general fund can be balanced with an increase in "sin" taxes on tobacco and alcohol products is ludicrous. First, as noted above, the higher one pushes the cost of these products, the greater the possibility of actually seeing a decline in consumption as consumers moderate or eliminate consumption. Second, much of the consumption of these products, in particular alcoholic beverages, is made by visitors which, as hotels have reported, are dwindling in numbers. Thus, the base for both of these tax resources will begin to shrink until the visitors return. Thus, these tax resources cannot be counted upon to raise the revenues to balance the state budget. Thus, legislators will suffer great angst in raising these taxes and will have very little to show for their political risk. In fact, as was evidenced in the states of New Jersey and Maryland, lawmakers there counted on an increase in the cigarette taxes to help balance their budgets only to learn that collections actually went down below their prior levels. Thus, care should be exercised in targeting these resources for a quick fix to the state's financial woes.

Finally, lawmakers need to remember that the amount payable to the state under the Master Settlement Agreement (MSA) with the tobacco companies is dependent on the amount of product purchased and consumed nationwide. With the rise in the federal tax and potential state tax increases, there is no doubt that it will affect consumption of this product and, therefore, the amount of money the states receive under the MSA.



Hawai'i Primary Care Association

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To: **The House Committee on Finance**
The Hon. Marcus R. Oshiro, Chair
The Hon. Marilyn B. Lee, Vice Chair

*Faxed Testimony: 2 copies +
original to Room 308*

Testimony in Support of House Bill 895, HD 1
Relating to Tax on Tobacco Products Other Than Cigarettes

Submitted by Beth Giesting, CEO

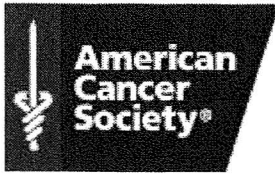
February 27, 2009, 12:00 p.m. agenda, Room 308

The Hawaii Primary Care Association urges your support for this measure that would increase taxes on tobacco products and direct part of the funding to the Community Health Center special fund. We believe that both of these purposes are good and timely public health policy.

Such an investment in Community Health Centers (CHCs) will help pay for otherwise uncompensated tobacco cessation programs at the centers. CHCs are serving the people who are most likely to use tobacco products and thus in greatest need of tobacco intervention. Unfortunately, their programs are generally underfunded – if funded at all – by other tobacco settlement dollars, which are also targeted for reduction in the coming fiscal biennium.

We would ask that the committee consider at least doubling the percentage of the tax in order to provide a stronger deterrent, especially for young people who are more sensitive to costs.

Thank you for the opportunity to support this bill.



February 25, 2009

Committee on Finance
Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair

Hearing:

12:00 P.M., Friday, February 27, 2009
Hawaii State Capitol, Room 308

RE: HB895, HD1, Relating to Tax on Tobacco Products Other Than Cigarettes

TESTIMONY IN STRONG SUPPORT

Good afternoon Chair Oshiro, Vice Chair Lee, and members of the Committee on Finance. My name is George Massengale and on behalf of the American Cancer Society, I thank you for the opportunity to testify in strong support of HB895, which increases the tobacco tax on tobacco products other than cigarettes; and designates 33.3% of the proceeds to the community health centers special fund.

The American Cancer Society Hawaii Pacific Inc., was formed in 1959, and is a community-based, voluntary health organization dedicated to eliminating cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer, through research, education, advocacy, and service. This mission is consistent with the Society's ambitious 2015 goals of slashing the cancer mortality rate by 50%, reducing the incidence of cancer by 25%, and improving the quality of life of cancer patients and survivors by reducing the pain and suffering that cancer causes.

Oral and pharyngeal cancer continues to be a significant health problem in the United States and in Hawaii. Approximately 30,000 new cases of oral cancer are diagnosed each year. In Hawaii, the oral/pharyngeal cancer rate is 9.2% per 100,000 of population. Currently, one-third of those patients who receive a diagnosis of oral cancer will eventually die of their disease. The long term survival of oral cancer patients is, as in most cancers, directly proportional to early detection, diagnoses, and treatment.

The use of tobacco products, cigarettes, cigars, pipes, and smokeless tobacco products (spit, snuff, and chewing tobacco) has emerged as a major preventable risk factor for a number of oral diseases and disorders. Unfortunately, shameless marketing of tobacco products to our children and young adults is having a negative impact in Hawaii. The use rates for smokeless tobacco products is moving upwards, as indicated by the increase in tax revenues on these products.

Raising the tax on other tobacco products—making the case. First we note that there is a provision in this bill that would put additional moneys into the community health centers special fund. We believe that there are other equally important reasons to increase this tax:

1. The current tax rate of 40% of the wholesale prices was established in 1965 and has never been increased. Other states have much higher rates; Massachusetts has a 90% rate, Maine 78%, Washington 75%, Minnesota 70%, and Oregon 65%.

2. It is well established by scientific research and the experiences of numerous states that increasing the state tax rates on non-cigarette tobacco products not only raises new revenues but also helps to reduce tobacco use levels, especially among youth.
3. With Hawaii's economy in dire straights, substantially raising the tax rate and dedicating portions of the increase to tobacco control and other safety net health programs, such as community health centers, will ensure the sustainability of those programs as additional demands are placed on them by laid off workers, the underinsured and uninsured.

The Society believes that a tax increase should be substantial and would recommend at least doubling the rate. In 2008, the Department of Taxation reported \$3.47 million in tax collections on other tobacco products. We would also point out that quadrupling the rate could produce \$13.88 million in revenues.

We are in complete support of depositing the 33.3% of the proceeds collected into the community health centers special fund. As our economy continues to spiral downward, there will be many job layoffs. Thousands will lose their health coverage and will join the roles of the uninsured or underinsured. Our state's community health centers have been the safety net for those individuals who are unable to obtain primary health care. It is critical that we ensure the sustainability of our community health centers. We should not reduce access to care options in the coming hard times. It should be noted that community health centers also provide critical follow-up services for cancer patients with limited resources. In addition, our community health centers are on the front-line in providing screenings for the detection of cancers. If these services were not available many more of our residents would die from cancer.

We testified on a similar tax measure, HB1527 before the Health Committee. That bill also had a provision to allocate a portion of the tax collected into a cervical and breast cancer screening special fund to ensure that all women will be able to continue to receive pap tests and mammography. We would ask that this committee consider earmarking a percentage of the tax collected be deposited into this fund. We would recommend a percentage that would generate approximately \$200,000 annually.

In closing, we would note that we believe that this is a good bill. It accomplishes several purposes. It is a sin tax that could generate substantial revenues thus helping our state's fiscal crisis. It will provide additional funding for our state's "health safety net" community health centers. It could also fund cervical and breast cancer screenings, and finally it will deter adult and youth tobacco use, which will in turn drive down not only oral cancer rates but the rates of other cancers related to tobacco use.

Finally, we would respectfully request that the committee look favorably on our recommendations to substantially increasing the tax, at the least doubling the tax and allocating a percentage of the revenues into the cervical and breast cancer special fund.

Mahalo for the opportunity to provide testimony in strong support of this measure.

Very truly yours,



George S. Massengale, JD
Director of Government Relations



Dear Honorable House Health and Human Services Committee:

RE: SUPPORT on HB 895 (Raising Tax on Other Tobacco Products)
Also Support HB 1527, SB 38 and SB 1089

My name is Valerie Chang. I am Executive Director of the Hawaii COPD Coalition. Our organization provides services and support to Hawaii's people affected by Chronic Obstructive Pulmonary Disease, more commonly known as emphysema, chronic bronchitis and similar conditions. COPD is the fourth leading cause of death in the US and expected to be the third leading cause of death in the US and world by 2020. The American Lung Association has estimated that over 50,000 people in Hawaii have COPD. Our 2007 and 2008 survey data reveal that slightly under 4% of our adult population have been told they have COPD, emphysema and/or chronic bronchitis. Smoking is the major cause of these health conditions. COPD is currently the 4th leading cause of death in the US and projected to rise to 3rd in the US and world by 2020. For more information to go <http://learnaboutcopd.org> or <http://hawaiicopd.org>.

I strongly **support** HB 895 (as well as related bills HB 1527, SB 38, and SB 1089, raising taxes on other tobacco products. The tax increase will bring in greatly needed revenue and reduce tobacco use, particularly in our youth who are especially sensitive to price. These funds can help increase tobacco prevention and cessation efforts, since so many want to quit and need services to help them. Youth use of smokeless products is rising in both high and middle school students. Many dangerous health conditions are caused by smokeless tobacco, including cancers, gum disease and increased cardiovascular conditions. Rates must be increased to keep prices comparable to cigarettes and ensure declines in use.

Tobacco causes so many health, social and financial problems in addition to COPD. Please vote in favor of HB 895 (as well as related bills HB 1527, SB 38, and SB 1089). Thank you for carefully considering this matter. Please do not hesitate to contact me if I can provide any additional information.

Aloha,
Valerie Chang, JD
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Improving Life

One Breath at a Time

Since 1904, the
American Lung Association
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TO: House Committee on Finance

**FOR: Hearing Scheduled for 12:00 pm
Friday February 27, 2009**

**RE: TESTIMONY IN SUPPORT HB 895, HD1 RELATING TO
TAX ON TOBACCO PRODUCTS OTHER THAN
CIGARETTES**

Chair Oshiro, Vice Chair Lee and Committee Members:

The American Lung Association of Hawaii supports HB 895, HD1 which increases the tobacco tax on tobacco products other than cigarettes. Our mission is to save lives by improving lung health and preventing lung disease through research, education and advocacy.

The tax has not been raised on non-cigarette products since 1965. With the taxes on cigarettes on the increase, these products are becoming an attractive alternative to both current cigarette smokers and those experimenting with tobacco products. It is well documented that all of these products pose significant health hazards.

The American Lung Association in Hawaii urges the Committee to consider raising the tax even higher than the proposed 60% of the wholesale price to 100% of the wholesale price. This would help to deter use of these dangerous products, especially for young people to whom they are being heavily marketed. In addition it will bring in needed revenue to the state.

On behalf of the 154,000 people who struggle to breathe I thank you your consideration on this important measure.

Respectively submitted,

Jean Evans, MPH
Executive Director, American Lung Association in Hawaii



American Heart Association | American Stroke Association

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Testimony for HB 895, HD 1 “Relating To Tobacco”

The American Heart Association supports the intent of HB 895, HD 1, but recommends several amendments.

A portion of new funds realized from any tobacco tax increase should be directed toward further tobacco prevention and education. Hawaii current investment remains well below the Centers for Disease Control’s recommended spending in tobacco and prevention. The CDC recommends that Hawaii invest \$15.2 million per year on tobacco prevention, education and cessation programs to fully achieve success in reducing tobacco dependence. Hawaii currently receives \$11.3 million a year for tobacco prevention and cessation, which includes both state and federal funds. It is not clear how much the state actually invests annually in tobacco prevention and cessation, but it is likely below \$10 million per year.

In addition, the AHA recommends that the state attempt to set the tax on “other tobacco” products at a level comparable to what its cigarette tax will be when the current cigarette tax increase is fully implemented in 2011. In the future, any cigarette tax increases should be accompanied by a comparable increase in the tax on other tobacco products to insure that hikes in cost for one type of tobacco product don’t drive potential young customers toward the cheaper type of tobacco. The goal of any tobacco tax increase should be primarily to achieve a reduction in use of tobacco products, especially by price-sensitive young people. The costs to the state for medical care alone related to tobacco use far outweigh the benefits in taxes collected on tobacco sales.

What do nicotine and tobacco smoke do to the body?

Nicotine causes a short-term increase in blood pressure, heart rate and the flow of blood from the heart. It also causes the arteries to narrow. Users of smokeless tobacco are exposed to levels of nicotine that are comparable to cigarette smokers. In addition, smoke from other tobacco products like cigars include carbon monoxide, which reduces the amount of oxygen the blood can carry. This, combined with the nicotine effects, creates an imbalance between the demand for oxygen by the cells and the amount of oxygen the blood can supply. Tobacco smoke also increases the risk of developing hardening of the arteries and heart attacks in several ways. First, carbon monoxide damages the inner walls of the arteries, encouraging fatty buildups in them. Over time, this causes the vessels to narrow and harden. Nicotine may also contribute to this process. Smoking also causes several changes in the blood that make clots—and heart attack—more likely. Cigar and pipe smoking increases the risk of abdominal aortic aneurysm by as much as six times compared to never-smokers. Smoking cigars or pipes doubles the risk of fatal stroke compared to never-smokers. Smoking cigars or pipes and cigarettes increases the risk for fatal stroke by six times compared to never-smokers. Pipe smoking has been found to increase coronary heart disease risk by almost as much as cigarette smoking. Some studies have shown that smokeless tobacco results in as much as a 40 percent increased risk of dying from cardiovascular disease.

Caution About Switching to a Weight-Based Tobacco Tax System

Legislators should be cautioned about falling into the tobacco companies’ trap of switching to a weight-based formula for calculating the tax on “other tobacco” products rather than through a percentage of the wholesale or retail price. Over time, such shifts to a weight-based tax dramatically reduce the portion of state revenues gained from their smokeless tax, reducing the effective tax on the kinds of higher-priced premium products that the larger companies sell and increasing the effective tax on lower-priced brands, predominantly sold by smaller competitors.

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*“Building healthier lives,
free of cardiovascular
diseases and stroke.”*

In contrast, a percentage-of-price tax levies a fixed percentage tax on all smokeless products, ensuring that those products that bring in higher amounts of revenue and profits also pay higher amounts per can or dose while still paying the exact same percentage tax as less profitable brands. Taxing by weight also provides a massive tax break to the new generation of smokeless tobacco products (e.g. Ariva, Stonewall, Snus products) that can weigh as little as one-tenth as much as standard smokeless products. Accordingly, states with weight-based smokeless or moist snuff taxes will see their revenues shrink as this new wave of super-low-weight products takes over more and more of the total smokeless market. To ensure that smokeless tobacco brands that engage in unfair competition or predatory pricing still pay reasonable amounts of tax, the state could simply add a minimum tax onto its existing percentage-of-price tax system.

But it is not just an issue of premium versus lower-price brands. The vast majority of kids who use smokeless tobacco use the higher-priced premium brands, such as Copenhagen. By ultimately lowering the price on the smokeless tobacco products most popular with kids, shifting to a weight-based tax would increase smokeless tobacco use among youths.

Setting Smokeless Tobacco Tax Rates Effectively

Simply raising all state tobacco taxes will produce enormous benefits by reducing overall tobacco use, with an especially powerful negative effect on tobacco use by kids. At the same time, it is important to make sure that the tax rates on all tobacco products are roughly comparable, to minimize shifts from one tobacco product to another cheaper one and to maximize the overall reduction in tobacco use.

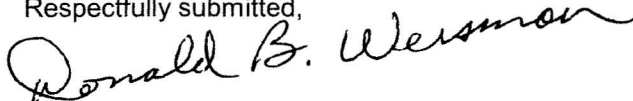
The attached model language provided by the Campaign for Tobacco-Free Kids does all that by adding an alternative tax rate for the major categories of tobacco product to make sure that they are, at a minimum taxed at a rate equal to the state's cigarette tax rate. The language tries to do that in a very clear and understandable, common-sense way by, for example, setting the minimum tax on a typical can of smokeless equal to the state's tax on a pack of cigarettes, taxing smokeless that comes in single-dose units at the state's single-cigarette tax rate, and setting a minimum tax on 5-packs of cigarillos and blunts equal to the state tax on a pack of cigarettes.

The model language also:

- 1) Establishes that the tax rates on all the different tobacco products would increase whenever the state's cigarette tax rate is increased (which should also help the tax rates keep up with inflation and product price increases).
- 2) Sets new minimum tax rates for low-priced smokeless tobacco products that will increase over time.
- 3) Makes sure that not just little-cigar cigarettes but also cigarillos and blunts pay tax rates at least as high as the state tax on cigarettes -- but in ways that should avoid prompting opposition from high-priced premium cigar manufacturers.
- 4) Would be enormously helpful for reducing overall use levels and promoting public health by raising the effective OTP tax rates, especially on lower-priced brands in each category, and making sure the rates will keep up with future state cigarette tax increases.

In conclusion, it is important to both maintain a balance between the taxes on cigarettes and the tax on "other tobacco" products in order to continue to drive down Hawaii's youth smoking rates. It is just as important to maintain the level of investment in tobacco prevention, education and cessation programs at or near the CDC's minimum recommended amounts. The AHA strongly recommends that a portion of any new tobacco tax revenue be earmarked to support those life-saving programs.

Respectfully submitted,



Donald B. Weisman
Hawaii Communications and Marketing/Government Affairs Director

HB 895

Pertaining to Tax on Tobacco Products
Other than Cigarettes

Chairman Marcus Oshiro

House Finance Committee

Hearing Date: Friday February 27, 2009 at 12pm
Place : House Conference Room 308

Chair Oshiro and committee members, my name is Sid Boulware and I am the President of Hawaiian Isles Enterprises. Thank you for allowing me to testify in **OPPOSITION** to HB 895.

HB 895 proposes to increase the Tobacco tax on tobacco products other than cigarettes from its current 40% level on the Wholesale price to a new level of 60% of the Wholesale price. All this will do, if passed, is to increase the levels of "Black Market" activities in the State of Hawaii just like what happened to the cigarette industry previously.

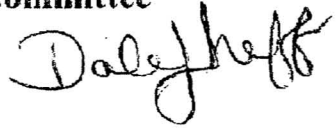
Internet sales that escape the 40% taxation in Hawaii and the current Black Marketing of Tobacco/Cigar items has already shrunk our sales of such by as much as 50% and to increase the taxation would only add fuel to the fire.

Hawaii is already one of the highest taxed States and any increased costs borne by Distributors or Customers will only lead to the demise of the industry that pumps a lot of dollars into this State.

If passed, it is almost certain that local consumption of tobacco products will shift to the Internet and Black Market where there are "no taxes" collected for the State of Hawaii and we all lose.

To: Representative Marcus Oshiro, Chair, House Finance Committee

From: Dale Neff, Co-Owner South Pacific Pipes and Cigars



**In re: HB 895 HDI RELATING TO TAX ON TOBACCO PRODUCTS
OTHER THAN CIGARETTES**

I am Dale Neff co-owner of South Pacific Pipes and Cigars. Thank you for allowing me to present testimony on this Bill.

I have been in the cigar and pipe business in Hawaii for the last 14 years. I have resided in Hawaii for the past 35 years and have enjoyed my years here.

I have slowly watched the decline of our profession in the last few years and to me it is very sad. We are going to experience an increase in the federal tax on April 1, 2009 and I was informed about the potential tax increases by our local politicians on the other tobacco products.

I have watched over the years other states increase the tax on these items in the hopes of increasing revenues on tobacco tax. Many of these States have seen reductions in taxes collected. The reason is as follows; there are many States that have very small tax percentages and the business will go to these states instead.

In 1995-1996 we formed an organization called HAT which stands for "Hawaii Association of Tobacconists." We met at the now defunct Havana Cabana to discuss a proposed tobacco tax increase. We met with several Senators and City Council members on this matter.

I told the members that if they raised the taxes in Hawaii more business would go to the mainland mail order companies on the mainland. During these years there was no internet presence. I was asked by the folks attending if I could get any information to prove that mail order companies were doing a large amount of business in cigars, pipes, snuff and chewing tobacco from Hawaii. I contacted Norman Sharp of the Cigar Association of America in Washington DC and told him of our situation. He got back to me and said that out of the four of the main mail order companies only one would give him information. In 1996 with little or no internet presence and Hawaii's population much less than it is now, this company was doing \$4 million in tobacco sales with Hawaii residents. Just imagine the loss of revenue from only one company!

In the past 6 and 1/2 years that we have been in business, 6 tobacco shops have gone down the tubes; Davidoff, Cigar Emporium, Smoking Bean, two Dunhill shops and T-Spot Hideaway.

As I said in my testimony a few Fridays ago, the States with much lower tobacco taxes (always where the mail order companies can be found) will just 'lick their chops' if you put a substantial increase in our other tobacco products taxes as our former customers will now to them instead of us.

In the 6 and ½ years we have been open we discontinued selling cigarettes 5 and ½ years ago.

I do hope that you give this some thought. One last thing, some of the States who had put huge increases on other tobacco products and saw revenues go down as a result, changed it to a cap of say .50 per cigar and no higher. Their revenues went up and things came out better for both sides. Washington State was one of these States.

Thank you again for allowing me to present this testimony.

February 26, 2009

TO: Chair Marcus R. Oshiro and Members of the Committee on Finance

FROM: Cigar Association of America, Inc.
(William L. Goo)

RE: **HB 895, HD1** - Relating to Tax on Tobacco Products Other Than Cigarettes

Hearing Date: Friday, February 27, 2009 at 12:00 noon

My name is William Goo. I represent Cigar Association of America, Inc. (CAA).

CAA respectfully opposes passage of **HB 895, HD1** for the following reasons:

Other tobacco product (OTP) users are already taxed at a high rate (40%) and will be required to pay even more to purchase tobacco products as a result of the passage of the SCHIP bill by Congress. The SCHIP legislation increases the tax on large cigars from approximately 21% with a cap of \$.05 to approximately 53% with a cap of \$.40 per cigar and on little cigars from \$.37 a pack to a little over \$1.00 a pack. The Hawaii excise tax rate of 40% on OTP is based on the wholesale price of a tobacco product. Inclusive in the wholesale price is the federal tax. Hawaii's excise tax is an ad valorem tax, and an increase in the base price of the product would automatically result in an increase in the tax amount and additional revenue. Notwithstanding the fact that the 40% tax rate has been in effect since 1965, the revenue generated by the tax has increased over the years as the wholesale price of a tobacco product increased.

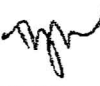
Increasing the amount of the tax would not necessarily deter the use of other tobacco products. OTP users have the option of resorting to less expensive means to purchase tobacco products which may result in a decrease in tax revenue notwithstanding any rate increase.

It is respectfully requested that the Committee hold this measure. Thank you for considering this testimony.



**COALITION FOR A
TOBACCO-FREE HAWAII**

To: Representative Marcus R. Oshiro, Chair, Committee on Finance
Representative Marilyn B. Lee, Vice Chair, Committee on Finance
Members, House Committee on Finance

From: Trisha Y. Nakamura, Policy and Advocacy Director 

Date: February 25, 2009

Hrg: House Committee on Finance; February 27, 2009 at 12:00 p.m. (Agenda #3)

Re: **Strong Support to Increase the Tax on Other Tobacco Products, HB 895 HD 1**

Thank you for this opportunity to testify in support of an increase on the tax on tobacco products other than cigarettes. The Coalition for a Tobacco Free Hawaii (Coalition) is the only independent organization in Hawaii whose sole mission is to reduce tobacco use through education, policy and advocacy. The Coalition has long supported increasing taxes on tobacco products as a means to reduce youth consumption of tobacco. Thank you for hearing this measure.

The Coalition supports raising the tax on other tobacco products as well as expanding the definition of "tobacco products" to explicitly include smokeless tobacco. The Coalition recommends that a portion of any new tobacco tax revenue fund tobacco prevention and cessation programs.

Raising the tax on tobacco products is a win-win for our State. A tax increase will not only bring revenue into our State but it will reduce youth tobacco use. HB 895 HD 1 also presents an opportunity for lawmakers to dedicate funds to tobacco prevention and control efforts.

Health is Promoted By Increasing the Tax on Tobacco Products Other Than Cigarettes

By increasing the percent of the wholesale price of each tobacco product sold, use of smokeless tobacco by adults and young people will decrease. This will result in a decline in the serious health conditions that arise from use of smokeless tobacco including cancer of the esophagus pharynx, larynx, stomach, and pancreas, gum disease, and the risk of cardiovascular disease. Adolescents and young adults are two to three times more sensitive to tobacco price changes than adults—less youth will begin to start using smokeless tobacco and more will reduce their consumption. Hawaii has seen an increase in youth use of smokeless tobacco despite our decreasing smoking rates. This is a concern because children and adolescents who use smokeless tobacco, especially if they are male, are at an increased risk to become cigarette smokers.

Rates of Smokeless Tobacco Use in 2003 and 2007

	2003	2007
High School students	2.8%	3.7%
Middle School students	1.7%	2.8%

(Hawaii State Department of Health, Data Highlights from the 2007 Hawaii Youth Tobacco Survey (YTS) and Comparisons with Prior Years. September 2008)

Significant Revenues Can Be Generated from an Increase in the Tax on Other Tobacco Products

The chart on the next page shows rough estimates of how much revenue our State may see if the tax on other tobacco products is increased. The figures are based on two averages: the five-year and the ten-year averages of taxes on other tobacco products as viewed at the Department of Taxation's website.

Revenue Projections for Tax on Other Tobacco Products

Revenue Projections	Based on 5-Year Average	Based on 10-Year Average
60% of purchase price (20% increase fr current rate)	\$3,826,354.45	\$3,322,278.00
70% of purchase price (30% increase fr current rate)	\$4,145,217.32	\$3,599,134.50
80% of purchase price (40% increase fr current rate)	\$4,464,080.19	\$3,875,991.00
90% of purchase price (50% increase fr current rate)	\$4,782,943.06	\$4,152,847.50
100% of purchase price (60% increase fr current rate)	\$5,101,805.93	\$4,429,704.00

Other Tobacco Products Must Be Taxed at Rates Comparable to Cigarettes

The Coalition offers that an increase in the tax on tobacco products other than cigarettes will decrease the use of smokeless tobacco. We caution that the tax increase must be comparable to that of cigarettes.

When the tax on cigarettes increased, an increase in the use of smokeless tobacco rose among our youth as noted above. Nationally, there is a growing trend in pipe-smoking among college youth. Norman Sharp, President of the Cigar Association of America noted that nationally, sales in pipe tobacco climbed to 5.3 million pounds in 2008 (from 4.9 million in 2006).

Revenues Should Be Directed to Fund Tobacco Prevention and Control

At a time when there are threats to fund tobacco prevention and control, the Coalition would like to see all, if not a portion of the revenues from the increase in the tax on other tobacco products dedicated to tobacco prevention and control. This will ensure that the comprehensive tobacco prevention and control work in Hawaii continues. Those who want help in quitting tobacco should have the services to help them. 88% of smokers want to quit someday; 61% have tried to quit in the past year. The revenues collected from tobacco should support services for them. The significant gains are at risk if tobacco prevention and control efforts are not funded and maintained.

Thank you for the opportunity to testify. The Coalition strongly encourages you to pass this measure out of Committee.