

HB 273 / SB 233

Dear Hawaii State Legislator:

L A T E

I am urging you to resist any further increases in taxes on large cigars. By increasing this already heavily taxed product the consumer is taking his cigar purchase to mainland businesses (catalogue houses and the Internet).

- 42 states other than Hawaii have a low or have lowered taxes on cigars while still increasing revenues by using a straight cap on each cigar sold.
- 8 states including the District of Colombia (D.C.) have straight cap on large cigars and have enjoyed an increase in revenues as a result.
- The state of California lowered their tax by 20% to recapture revenues that had been pouring out of state. After a huge statewide debate in 1999, Proposition 10 fell flat on its face when consumers scrambled to out-of-state retailers, Internet, or Indian reservations for their tax free cigar purchases.
- Don't play into the hands of out-of-state catalogue and on-line retailers.
- Prevent the rise of the underground economies that thrive on high taxation.
- Please resist legislation that will force the consumer to play into the hands of the **Black Market**. They thrive on the heavily taxed products.
- Please kokua the local merchant who already has a track record of being a good taxpaying contributor to the Hawaii economy.
- Support your local cigar retailer. He keeps dollars circulating in the state. He collects the much needed G.E.T. He employs local residents. Do your best to protect small business in our state. Higher cigar taxes causes resentment and results in our residents taking their cigar purchases to the mainland.

Sincerely,

*Joe Hilton, President
Cigar-Cigar Etc!
808-591-0808*

HB 273

Today I appear before you as a citizen, parent, homeowner and business owner in this great state of Hawaii. I am appearing before you, so that you might see that by passing this bill in its present form the state of Hawaii will suffer even greater revenue consequences. This kind of taxation does little to raise revenue, it only serves to penalize the retailer and ultimately drives the consumer into the arms of the out-of-state merchant who takes monies out, and we also lose the General Excise Tax monies.

This bill has been proposed in many other states in this form. It is part of the model legislation by Tobacco Free Kids. Their aim is to tie cigar and cigarettes together at the tax waist and march it down the taxation aisle.

However, all this will do is drive the consumer, who is generally over 35, owns a home and has a full-time job, into one of many catalogue houses or online retailers. The state loses again because you cannot legislate peoples personal habits or lifestyles. Therefore you lose out on any kind of tax revenues because legislation such as S.B. 233 drives the consumer out-of-state to make his purchase. And please, do not be so naïve to think that any of our over burdened state agencies has the time or manpower to "chase" the consumer to "cough up" his share of taxes. This is not going to happen, especially in these tight economic times and many continuing days of furloughs by state employees.

You have to make up your mind. Are you trying to legislate human behavior by taxing the hell out of adult cigar consumption or do you want to raise revenues by promoting progressive taxation. I think that at this present economic junction you want to accomplish the best of both.

Please remember this simple matter of fact. Hawaii's tobacco tax was untouched from 1965 until 2009 at 40% because when the tax level increases higher, the Black Market kicks in. This fact was revealed to me 10 years ago by Ray Kamikawa the former State Tax Director. We presently are at a 50% taxation rate and some say that HB 273 will raise it even further with a tax upon a tax.

When the 40% tax was calculated back in 1965 (46 years ago) catalogue shopping was in its infancy and Al Gore had not yet invented the internet. Today, gasoline is over \$4 per gallon and climbing. The public is thinking twice about getting into their car and driving 20-30 minutes just to buy Uncle Kimo a Happy Birthday box of his favorite stogies. They just going online, spend ten minutes and complete the transaction. Clean, clear and drop shipped to Uncle's doorstep.

What many tax progressive states are now doing is keep the regular tax on cigarettes, but on large cigars they put a straight \$.50 cent cap per cigar sold and now many states are realizing increased revenues. Among them, Iowa, Oregon, Washington, Wisconsin, Rhode Island. Please recall that 42 states have lower tobacco tax rates than Hawaii.

J. F. Hilton
J. F. Hilton



42 States are well Below Hawaii Cigar Tax

STATE EXCISE TAX RATES FOR NON-CIGARETTE TOBACCO PRODUCTS

Every state except for PA has at least some tax on non-cigarette tobacco products. FL does not tax cigars, but does tax all other tobacco products. The highest rates, as a percentage of wholesale/manufacturer's price, are in WI (100%), WA (95%), VT (92%), MA (90%), RI (80%) ME (78%), and AK (75%). Of those states that tax moist snuff at a percentage of price, the average rate is roughly 35%, despite very low rates in SC (5%), TN (6.6%), and WV (7%). TN and WV also have two of the highest rates of smokeless use by high school males (21.3% and 24.2%). Nationwide, 15.0% of high school boys and 2.2% of girls use smokeless tobacco.¹ It is important to raise tax rates on all tobacco products to prevent switching to a lower-taxed and lower-priced tobacco product or initiation. See Campaign Factsheets, *Smokeless Tobacco and Kids*, www.tobaccofreekids.org/research/factsheets/pdf/0003.pdf and *Benefits from Increasing Smokeless Tobacco Taxes*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0180.pdf>.

State	Snuff Tax ²	Chewing & Smoking Tobacco Tax	Cigar Tax	Date OTP tax last changed	Cigarette Tax (¢/pack)	Parallel Tax (% mfr. price)
Alabama	1.0-12.0¢/oz.	Chewing: 1.5¢/oz.; Smoking: 4-6¢/oz.	4.0-40.5¢/10 cigars	5/18/2004	42.5	15%
Alaska	75% wholesale price	75% wholesale price	75% wholesale price	10/1/1997	200	69%
Arizona	22.25¢/oz.	22.25¢/oz.	20.25-218¢/10 cigars	12/8/2006	200	69%
Arkansas	68% mfr. price	68% mfr. price	68% mfr. price	3/1/2009	115	40%
California ³	33.02% wholesale price	33.02% wholesale price	33.02% wholesale price	7/1/2010	87	30%
Colorado	40% mfr. price	40% mfr. price	40% mfr. price	1/1/2005	84	29%
Connecticut	55¢/oz.	27.5% wholesale price	27.5% wholesale price	10/1/2009	300	104%
Delaware	54¢/oz.	15% wholesale price	15% wholesale price	6/30/2007	160	55%
DC	75¢/oz.	12% retail price, not pipe tobacco	12% retail price (not on \$2+ cigars)	1/1/2010	250	86%
Florida	85% wholesale price	85% wholesale price	None	7/1/2009	133.9	46%
Georgia	10% wholesale price	10% wholesale price	2.5¢/10 cigars; 23% wholesale price	7/1/2003	37	13%
Hawaii	70% wholesale price	70% wholesale price	50% wholesale price	9/30/2009	300	104%
Idaho	40% wholesale price	40% wholesale price	40% wholesale price	7/1/1994	57	20%
Illinois	18% wholesale price	18% wholesale price	18% wholesale price	7/16/1996	98	34%
Indiana	24% wholesale price	24% wholesale price	24% wholesale price	7/1/2007	99.5	34%
Iowa	119¢/oz.	50% wholesale price	50% wholesale price, 50¢ cap	3/15/2007	136	47%
Kansas	10% mfr. price	10% mfr. price	10% mfr. price	7/1/1972	79	27%
Kentucky	19¢/unit ⁴	15% wholesale price	15% wholesale price	4/1/2009	60	21%
Louisiana	20% mfr. price	Chewing: 20% mfr. price; Smoking: 33%	8%-20% mfr. price	7/1/2000	36	12%
Maine	202¢/oz. (with min. tax)	Chewing: 202¢/oz.; Smoking: 20%	20% wholesale price	7/1/2009	200	69%
Maryland	15% wholesale price	15% wholesale price	15% wholesale price	7/1/2000	200	69%
Massachusetts	90% wholesale price	Chewing: 90% w/s price; Smoking: 30%	30% wholesale price	7/25/2002	251	87%
Michigan	32% wholesale price	32% wholesale price	32% wholesale price	7/1/2004	200	69%

¹ Youth Risk Behavior Surveillance (YRBS), 2009, <http://www.cdc.gov/mmwr/pdf/ss/ss5905.pdf>.

² Each state defines "snuff" differently, but it is usually defined as any powdered, finely cut, or ground tobacco that is not intended to be smoked.

³ California's other tobacco product tax is based on the state's cigarette tax rate and changes every year.

⁴ Dry snuff only. A unit is defined as a container less than 1.5oz. Moist snuff is taxed at the same rate as chewing tobacco.

State Excise Tax Rates for Non-Cigarette Tobacco Products / 2

State	Snuff Tax ²	Chewing & Smoking Tobacco Tax	Cigar Tax	Date OTP tax last changed	Cigarette Tax (¢/pack)	Parallel Tax (% mfr. price)
Minnesota	70% wholesale price	70% wholesale price	70% wholesale price	8/1/2005	157.6	54%
Mississippi	15% mfr. price	15% mfr. price	15% mfr. price	6/1/2005	68	24%
Missouri	10% mfr. price	10% mfr. price	10% mfr. price	10/1/1993	17	6%
Montana	85¢/oz.	50% wholesale price	50% wholesale price	1/1/2005	170	59%
Nebraska	44¢/oz.	20% wholesale price	20% wholesale price	10/1/2009	64	22%
Nevada	30% wholesale price	30% wholesale price	30% wholesale price		80	28%
New Hampshire	65.03% wholesale price	65.03% wholesale price	65.03% wholesale price (not premium)	6/10/2010	178	62%
New Jersey	75¢/oz.	30% wholesale price	30% wholesale price	7/15/2006	270	93%
New Mexico	25% mfr. price	25% mfr. price	25% mfr. price		166	57%
New York	200¢/oz. (with min. tax)	75% wholesale price	75% wholesale price	8/1/2010	435	150%
North Carolina	12.8% wholesale price	12.8% wholesale price	12.8% wholesale price	9/1/2009	45	16%
North Dakota	60¢/oz.	Chewing: 16¢/oz.; Smoking: 28% w/s price	28% wholesale price	7/1/2001†	44	15%
Ohio	17% wholesale price	17% wholesale price	17% wholesale price	2/1/1993	125	43%
Oklahoma	60% mfr. price	Chewing: 60% mfr. price; Smoking: 80%	3.6-120¢/10 cigars	1/1/2005	103	36%
Oregon	178¢/oz. (with min. tax)	65% wholesale price	65% wholesale price, 50¢ cap	1/1/2010	118	41%
Pennsylvania	None	None	Little cigars taxed as cigarettes	11/1/2009	160	55%
Rhode Island	100¢/oz.	80% wholesale price	80% wholesale price, 50¢ cap	4/10/2009	346	120%
South Carolina	5% mfr. price	5% mfr. price	5% mfr. price		57	20%
South Dakota	35% wholesale price	35% wholesale price	35% wholesale price	1/1/2007	153	53%
Tennessee	6.6% wholesale price	6.6% wholesale price	6.6% wholesale price	7/15/2002	62	21%
Texas	113¢/oz. (with min. tax)	113¢/oz. (with min. tax)	1-15¢/10 cigars	9/1/2010	141	49%
Utah	183¢/oz.	86% mfr. price	86% mfr. price	7/1/2010	170	59%
Vermont	187¢/oz. or 224¢/pack. if less than 1.2oz.	92% mfr. price	92% mfr. price for <\$1.08 price; \$2 per cigar for >\$1.08 to <\$10; \$4 per cigar for ≥ \$10	7/1/2010	224	77%
Virginia	10% mfr. price	10% mfr. price	10% mfr. price	3/1/2005	30	10%
Washington	252.6¢/oz. (on 10/1/10)	95% taxable sales price	95% taxable sales price, 75¢ cap	5/1/2010	302.5	105%
West Virginia	7% wholesale price	7% wholesale price	7% wholesale price	7/1/2003	55	19%
Wisconsin	100% mfr. price	71% mfr. price	71% mfr. price, 50¢ cap	9/1/2009	252	87%
Wyoming	60¢/oz.	20% wholesale price	20% wholesale price	7/1/2009	60	21%
US Government	9.4¢/oz.	Chewing: 3.1¢/oz.; Pipe: 17.7¢/oz.; RYO: \$1.55/oz.	Small cigars: \$1.01/20-pack Large cigars: 52.75% wholesale price, 40.26¢ cap	4/1/2009	100.66	35%

Campaign for Tobacco-Free Kids, January 26, 2011 / Ann Boonn

Manufacturer's (Mfr.) Price is the price charged to wholesalers/distributors by the tobacco company that makes the product. **Wholesale (w/s) Price** is either the price charged to retailers by the wholesalers/distributors or, in some states, equal to the Manufacturer's Price. **Parallel tax rate** is based on the cigarette tax and the taxable wholesale price of cigarettes versus other tobacco products.

Sources: Orzechowski & Walker, *The Tax Burden on Tobacco*, 2009; press reports; U.S. Alcohol and Tobacco Tax and Trade Bureau; USDA Economic Resource Service.

For more on other tobacco product taxes, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0180.pdf>, and <http://www.tobaccofreekids.org/research/factsheets/pdf/0282.pdf>.