

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

HOUSE COMMITTEE ON FINANCE

**TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING SB 233, SD 2
RELATING TO TOBACCO PRODUCTS**

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)
COMMITTEE: FIN
DATE: MARCH 23, 2011
TIME: 2:30PM
POSITION: OPPOSED

This measure amends the tobacco tax.

The Department of Taxation (Department) is opposed to this bill. The amendments made to the law in this bill are unclear and the Department cannot administer it. In order to properly administer the tax, both the Department and the public need a clear and concise description of the rate of tax the transaction on which the tax is imposed.

Department of Taxation Testimony
SB 233
February 2, 2011
Page 2 of 2

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TOBACCO, Tax on other tobacco products

BILL NUMBER: SB 233, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 245-3 to provide that the tax on tobacco products other than large cigars shall be \$ ____ instead of 70% of the wholesale price effective July 1, 2011. An excise tax of ____% shall be imposed on the wholesale price of each article or item of tobacco products, other than cigars, and equal to ____% of the wholesale price for large cigars sold by the wholesaler or dealer on and after July 1, 2011 whether or not sold at wholesale.

Or if not sold, then at the same rate upon the use by the wholesaler or dealer; provided that: (1) for large cigars there shall be a minimum tax equal to the amount of the total tax on a pack of twenty cigarettes established by this chapter per package of five cigars, with a proportionate tax for any other quantity of cigars; provided that no cigar with a wholesale price of less than \$1.00 per cigar shall be sold in packages of fewer than five; (2) for tobacco products, excluding cigarettes or cigars, that is offered in discrete single-use lozenges, pouches, pills, capsules or other single-dose or single-use units, there shall be a minimum tax equal to the amount of the total tax per-cigarette established by this chapter per each single-use unit; provided that all tobacco products subject to this subparagraph shall be sold in packages containing at least twenty individual single-use units; (3) for any smokeless tobacco product that consists of loose tobacco or that is otherwise not subject to any other tax, there shall be a minimum tax equal to the amount of the total tax on a pack of twenty cigarettes established by this chapter per 1.2 ounces, with a proportionate tax based on the net weight as provided in good faith by the manufacturer; provided that all tobacco products subject to this paragraph shall be sold in packages containing at least one ounce; (4) for roll-your-own tobacco and any other loose smoking tobacco, there shall be a minimum tax equal to the amount of the total tax on a pack of twenty cigarettes established by this chapter per 0.65 ounces with a proportionate tax on any other weights, based on the net weight as provided in good faith by the manufacturer; provided that all tobacco products subject to this subparagraph shall be sold in packages containing at least 0.65 ounces; and (5) for any other tobacco product, there shall be a minimum tax equal to the total tax under this chapter on twenty cigarettes per each package or container that contains any tobacco product subject to this subparagraph intended or expected for final sale to consumers, with the tax applied to the smallest package or container in any package or container intended or expected for sale to consumers that contains multiple smaller packages or containers.

Amends HRS section 245-15 to provide that ____ per article or item of tobacco products sold, other than large cigars, shall be expended by the department of health for tobacco prevention programs and tobacco dependence treatment services after July 1, 2011.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: The proposed measure provides that the tax on tobacco products other than large cigars shall be \$_____ rather than 70% of the wholesale price. The measure also imposes an excise tax on all other tobacco products in proportion to the corresponding tax on cigarettes. While the measure also requires tobacco products to be sold in specific quantities, it is questionable whether the tobacco products are packaged by the manufacturer in the quantities delineated in the measure. After reviewing the proposed schedule of taxing other tobacco products, one has to wonder what the cost will be to both administer, as well as comply, with these provisions. One of the tenets of good tax policy is that the tax should be simple and easy to understand and that administration and compliance should not cost more than the tax itself. This proposal certainly does not meet those standards.

While the proposed measure also would provide that _____ of each article or item of tobacco product sold, except large cigars, shall be used by the department of health for tobacco prevention programs and tobacco dependence treatment services. It should be noted that if the initial amount proposed by this measure is insufficient to fund the proposed purposes, there is, no doubt, that such amount will be increased to generate adequate revenues for the program. 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. 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 products for specific programs or services.

Digested 3/22/11

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Lung HelpLine
1-800- LUNG-USA
(586-4872)

Fighting for Air

Founded in 1904, the
American Lung Association
includes affiliated associations
throughout the U.S.



For March 23, 2011 House Finance Hearing at 2:30 p.m. in Room 309 on
Wednesday

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

Re: **Strong Support for SB 233, SD2: Relating to Tobacco
Products**

My name is Debbie Odo, Tobacco Control Manager, and I represent the American Lung Association in Hawaii. Thank you for allowing me to submit testimony for SB 233, SD 2. I support the intent of this measure because it is a benefit for our State.

Our state will see more tax revenue and we will see less people using tobacco products, leading to preventable disease. Smokeless tobacco use leads to serious health issues including esophageal cancer, gum disease; and it increases the risk for cardiovascular disease.

At our workplace and community wellness events, many smokers have shared how they switched from cigarettes to rolling their own cigarettes because of the cost.

I also just pulled a tobacco advertisement that shared how smokers should switch to snus (smokeless tobacco) cigarette smoking and it's lower in costs.

The Tobacco Industry is planting the seed that other tobacco products are safer and that's not true. Smokers will look for a cheaper means to continue their tobacco use. An increase in the cost on tobacco products will result in less people using smokeless tobacco. Youth are more sensitive to prices than adults. We must do as much as we can to prevent youth from using tobacco. Children, especially boys and young men, who use smokeless tobacco are at an increased risk to become future smokers.

We must be sure taxes on all tobacco products are equitable so that those who are addicted to nicotine will quit. More smokers quitting means less costs to our state in tobacco-related medical expenses.

Thank you for the opportunity to provide testimony in support of an increase in the tax on other tobacco products.

Debbie Odo, Tobacco Control Manager
E-mail: Dodo@ala-hawaii.org Phone: 808-537-5944 Ext. 216



COALITION FOR A
TOBACCO-FREE HAWAII

To: The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair
Members, House Committee on Finance
From: Trisha Y. Nakamura, Esq. Policy and Advocacy Director
Date: March 22, 2011
DM: FIN Cmte; Mar 23, 2011 at 2:30 p.m.; Rm 308 (AGENDA #2)
Re: **Strong Support for SB 233, SD 2 Relating to Tobacco Products**

Thank you for the opportunity to comment in support of SB 233, SD 2 which provides for parity between taxes on cigarettes and most other tobacco products by setting a minimum tax on most other tobacco products comparable to cigarettes, and an earmark for tobacco prevention efforts.

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

By increasing the cost 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 youth use of smokeless tobacco fluctuate despite our decreasing smoking rates. This is a concern: children and adolescents who use smokeless tobacco, especially if they are male, are at an increased risk to become cigarette smokers.

Parity in Taxes on Cigarettes & Other Tobacco Products Through a Flat Tax Is Imperative

The Coalition supports efforts to set a minimum tax on other tobacco products that is comparable to the tax on cigarettes. By creating parity, consumers will not be able to switch from one form of tobacco to another. We urge this Committee to ensure other tobacco products are not more “price-friendly” than cigarettes. This will encourage more tobacco users to quit and keep youth from starting.

By setting a minimum tax per article, the amount consumers have to pay for other tobacco products is comparable to cigarettes, regardless of the cost of the item or weight itself; such discourages new tobacco users from purchasing. Setting a minimum tax per article works more effectively than weight-based taxes alone, which the tobacco industry can work around by



COALITION FOR A TOBACCO-FREE HAWAII

adjusting the weight of its products. There are a number of emerging other tobacco products that would best be covered by a minimum tax comparable to cigarettes. These products are very light and range in manufacture and design—from spitless pouches, to sticks or pellets of tobacco. We urge you to maintain a minimum tax per article that is comparable to cigarettes.

A Portion of the Revenues Must Be Earmarked for Tobacco Prevention and Treatment

Hawaii residents overwhelmingly agree (89 percent) that it's important for the state to earmark some of the revenue to fund tobacco prevention and quit smoking programs. When the price of tobacco increases, more seek help to quit. It's necessary we have community resources including the Quitline, the American Lung Association, and services at community health centers to help tobacco users address their nicotine addiction. We ask that you maintain earmark the funds to tobacco prevention and tobacco dependence treatment services.

We strongly support this measure and urge you to dedicate a portion of the revenue to programs that help tobacco users quit. We also urge you to maintain existing funding for tobacco prevention and quit smoking programs to meet the demand.

The Coalition Recommends Language to Ensure Tax Parity and Health Benefits in the Future

The Coalition appreciates this draft as it incorporates language that ensures the tax on most other tobacco products. In section one of the bill, the referenced subsections (a)(12) and (13) can be eliminated as the provision for taxes on other tobacco products and cigars would be covered in subsection (a)(14) where the tax is set at a percentage of the wholesale price as long as it meets the requirements of set forth below it from provisions in (A) through (E). We urge you to set the percentage for all other tobacco products at 90% of wholesale price.

The Coalition requests your consideration of the recommended changes and your support of creating parity between other tobacco products and cigarettes. Thank you for the opportunity to provide comments in support of this measure.

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 provides leadership for the tobacco control community, develops networks, helps coordinate tobacco control programs and builds community awareness.



March 21, 2011

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

Hearing:

2:30 p.m., Wednesday, March 23, 2011
Hawaii State Capitol, Room 308

RE: SB233, SD2, Relating to Tobacco Products

Testimony in Strong Support

Chair Oshiro, Vice Chair Lee and members of the Committee on Finance. On behalf of the American Cancer Society Hawaii Pacific Inc., thank you for the opportunity to offer our testimony in strong support of SB233, SD2, which would impose an excise tax on tobacco products other than cigarettes, little cigars, and large cigars. It also imposes an excise tax on bulk and small quantity purchases of tobacco products and cigars. Finally, it requires a portion of the tax to be expended for tobacco prevention programs and services.

For over 60 years, the American Cancer Society in Hawaii has been dedicated to eliminating cancer as a major health problem through research, prevention activities, early detection, new and innovative treatments, and advocacy.

The American Cancer Society (ACS) was an early promulgator of the link between smoking and cancer in the landmark epidemiological studies of 1952 and 1959. In 1962, the ACS Board of Directors, having reviewed scientific studies on the relationship between cigarette smoking and lung cancer, publicly declared that "the clinical, epidemiological, experimental, chemical and pathological evidence presented by the many studies reported in recent years indicates beyond reasonable doubt that cigarette smoking is the major cause of the unprecedented increase in lung cancer."

In looking for ways to reduce smoking and tobacco use, ACS concluded that raising the tax on cigarettes and other tobacco products would be an effective way to reduce their use; thus, in turn, reducing the incidents of various types of cancers including, lung, pharyngeal, and oral cancer.

In 2009, due to concerns of the Legislature in the increase use of smokeless tobacco products, the tax on these products was raised from 40% to 70% of the wholesale price; generating an additional \$500,000 in tax revenues; from \$3.03 million in 2008 to \$3.53 million in 2010. Despite this increase, there are indications that the use of smokeless tobacco products continues to trend upwards.

We would note for the committee that in 2007, the President's Cancer Panel issued its report, *Promoting Healthy Lifestyles*, which advised increasing state tobacco taxes; stating, "**Increases in tobacco excise**

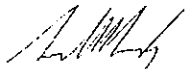
taxes, which are passed along to consumers in the form of higher tobacco product prices, have proven highly effective in reducing tobacco use by promoting cessation among current users, discouraging relapse among former users, preventing initiation among potential users, and reducing consumption among those who continue to use tobacco. These revenues also provide crucial dollars needed to fund anti-tobacco efforts.”

We believe that the \$3.20 excise tax proposed in this measure will have a significant impact on youth tobacco use in Hawaii.

In moving this measure forward, we ask the committee to retain the Senate’s amendment to fund anti-tobacco efforts from the per article sale of tobacco products, other than large cigars, sold by wholesaler or dealer after July 1, 2011. This will ensure that community based organization throughout the state would be able to maintain or even increase tobacco prevention and cessation services.

Thank you for the opportunity to provide testimony in support of SB233, SD2.

Very truly yours,



George S. Massengale, JD
Director of Government Relations



American Heart Association | American Stroke Association

Learn and Live.

Serving Hawaii

Testimony for SB 233, SD2 "Relating To Tobacco"

The American Heart Association supports the intent of SB 233, SD2.

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 \$15.4 million per year on tobacco prevention, education and cessation programs to fully achieve success in reducing tobacco dependence. Last year the state invested only approximately \$8 million toward that end.

The state should attempt to set the tax on "other tobacco" products at a level comparable to its cigarette tax. 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 "little cigars" or roll-your-own tobacco 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.

The AHA released a policy statement on the impact of smokeless tobacco products on cardiovascular disease in September 2010. Based on a review of existing studies done to date, that statement concluded that smokeless tobacco should not be recommended as an alternative to cigarette smoking or as a smoking cessation product. There is evidence that long-term smokeless tobacco product use may be associated with a greater risk of fatal heart attack and fatal stroke, and suggesting that smokeless tobacco product use may complicate or reduce the chance for survival after a heart attack or stroke. In addition to potential cardiovascular disease risk, smokeless tobacco product use is associated with an increased risk of some cancers and with oral disease, and it is addictive. Furthermore, the promotion of smokeless tobacco may lead to fewer people quitting smoking and more dual use of cigarettes and smokeless tobacco products. It stated that clinicians should continue to discourage use of all tobacco products and emphasize the prevention of smoking initiation and smoking cessation as the primary goals for tobacco control.

Serving Hawaii since 1948

For information on the AHA's educational or research programs, contact your nearest AHA office, or visit our web site at www.americanheart.org or e-mail us at hawaii@heart.org

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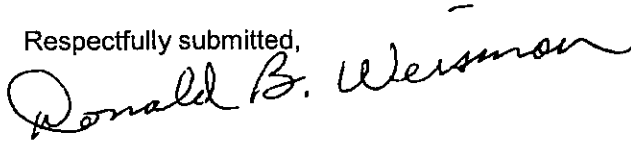
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*"Building healthier lives,
free of cardiovascular
diseases and stroke."*

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,

A handwritten signature in cursive script that reads "Donald B. Weisman". The signature is written in black ink and is positioned above the printed name.

Donald B. Weisman
Hawaii Advocacy Director



DATE: March 22, 2011

TO: Committee on Finance
Rep. Marcus Oshiro, Chair
Rep. Marilyn Lee, Vice Chair

FROM: Jackie Berry, Executive Director

Hearing: Wednesday, March 23, 2011, 2:30 p.m.

RE: **SB 233, SD1 – Relating to Tobacco Products**

Testimony in Support

Chair Oshiro, Vice Chair Lee and members of the Committee on Finance:
HMHB is a statewide coalition of public and private agencies and individuals committed to the improvement of maternal and infant health status in Hawaii through education, coordination and advocacy. **HMHB is testifying today in support of SB 233, SD2 Relating to Tobacco Products.**

This bill would impose an excise tax on tobacco products other than cigarettes that is equivalent to the tax imposed on a standard package of twenty cigarettes or little cigars. Tax increases will not only bring in additional revenue, they will reduce tobacco use, particularly among our young people. Youth are two to three times more sensitive to tobacco price changes than adults. Chew, as well as new and emerging products, are being marketed to youth, and, it is working – rates of smokeless tobacco use among high school students rose from 2.8% to 3.7% between 2003 and 2007.

HMHB is particularly concerned with tobacco use by young women. Tobacco use is one of the most preventable causes of neonatal morbidity and mental retardation. Research has determined that using tobacco during pregnancy is associated with premature delivery, low birth weight, and other adverse perinatal outcomes. **In Hawaii, an estimated 8.5% of mothers reported using tobacco during the last 3 months of pregnancy with women under 25 years of age having the highest rate of tobacco use.**

Increasing the tax on tobacco products is very effective way to reduce tobacco use by young women and thus protect the health of their babies. In addition, requiring a portion of this revenue for tobacco prevention program and services a positive step in addressing this problem.

We commend the Legislature for your foresight in addressing this serious health issue and our fiscal deficit in one decisive action. We ask that you **support** this bill.

Mahalo for your consideration of this bill and our testimony.



TESTIMONY IN SUPPORT OF SB233, SD2

March 23, 2011; 2:30 p.m.; Conference Room 308

Relating to Tobacco Products

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

From: Ron Menor, Chair, National Federation of Filipino American Associations
("NaFFAA") Region XII

Among my numerous civic activities, I currently serve as Chair of NaFFAA Region XII. NaFFAA is a national advocacy organization comprised of Filipino organizations throughout the United States. Our mission is to promote issues of concern to Filipinos and Filipino Americans. Region XII includes Hawaii and several Pacific Islands. It is in my capacity as NaFFAA Chair that I would like to state for the record our support for SB233, SD2.

The enactment of the above-referenced measure into law would further several important policy goals. It would promote public health by reducing the use of tobacco products, especially among our young people who are at increased risk of becoming future smokers when they use smokeless tobacco. Moreover, the passage of this measure would help to generate much needed tax revenue at a time when the State is grappling with a fiscal crisis. It would also result in the implementation of an equitable tax policy with respect to all tobacco products.

Study after study have shown that the use of smokeless tobacco, along with other tobacco products, leads to serious health issues which in turn contributes to rising healthcare costs. We are especially concerned about the high incidence of cancer among those within the Filipino population who use tobacco products. In this regard your support in ensuring the passage of SB233, SD2 as the measure works its way through the legislative process would be greatly appreciated.

Thank you for the opportunity to offer our views on this measure.

March 22, 2011

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

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

RE: **SB 233 SD2** - Relating to Tobacco Products
Hearing Date: Wednesday, March 23, 2011 at 2:30 p.m.

My name is William Goo. I represent the Cigar Association of America, Inc. (CAA). CAA opposes passage of **SB 233 SD2**.

Increasing the amount of the excise tax on cigars would not necessarily be a deterrent to its use. The imposition of an additional tax will significantly affect cigar sales by local retailers here in Hawaii. What these retailers believe will inevitably happen is that cigar users will resort to alternative and less expensive means to purchase their products which will consequently result in a decrease in tax revenue notwithstanding any proposed increase.

Although the intent of **SB 233 SD2** is to supposedly create a tax parity between cigars (and other tobacco products) and cigarettes, they are separate and distinct products. Cigars have a different consumer base in terms of income and age from cigarettes. Even the manner and amount of consumption is different. Therefore, the argument that equalizing the tax will result in consumers not being able to switch from one form of tobacco to another because of price is simply not true.

It is respectfully requested that the Committee hold this measure or, in the alternative, amend it to exclude the imposition of any additional taxes on cigars as stated in the original language of the bill. Thank you for considering this testimony.

Testimony for 58233,501 "Relating To Tobacco"

March 21, 2011

My name is Mark Miyahira and I am a partner in SWAM (Shiroma's Wine and More) a locally owned small business. We sell fine wine, premium spirits, hand crafted beers and premium hand-rolled cigars. Although I am not opposed to taxes on "Large Cigars" I do believe the state is over charging on it. Over the past 5 years that we have been selling cigars I have noticed that a number of our customers have been turning to the internet for their cigar buying. Whether it be the economy or the rise in taxes 2 years ago, every cigar smoker that I have run into has bought over the internet. Below are a few examples of the difference in pricing that we deal with:

Example 1

Our wholesale price from Klafers:

Item No.	Description	Amount
02NXCA358	NUB CAM 3.75x58 (3 3/4 X 58) 24/Count	\$68.77

From Cigars International Web site:

358 Cameroon (3.7" x 58) ☆ BOX OF 24 In Stock ~~\$110.40~~ \$98.95

With Hawaii State Tobacco tax on Cigars (50% wholesale):
 $\$68.77 \times .5 = \34.39
 Our profit (if the same) = \$30.18
 Our selling price would be \$133.34

\$133.34 vs \$98.95

Example 2

Our wholesale price from Klafers:

02CNBLCO	COHIBA Black CORONA (5 1/2 X 42) 25/Count	\$162.52
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From JRsCigars Web site:

CORONA Maduro 5.50 x 42 25 \$297.25 ~~\$297.25~~ \$164.25
 CDC3

With Hawaii State Tobacco tax on Cigars (50% wholesale):
 $\$162.52 \times .5 = \81.26
 Our profit (if the same) = \$1.73
 Our selling price would be \$245.51

\$245.51 vs \$164.25

These examples are from large cigar retailers that rely on states that have a high tobacco tax and as a result use a very low profit margin or they buy in bulk to get a better price. Our margins are a bit higher than what is on the examples and thus we and the state are at a big disadvantage to the internet sales.

As it stands, I believe there is a big number of *large cigars* that are bought out of state and as a result no tax collected.

Instead of the 50% wholesale tax, I would suggest a flat tax for *large cigars* similar to a pack of cigarettes of \$3.20 per 5 cigars. This would give the state a "per unit tax" as consumers trade down to the less expensive brands but would still collect the same amount of taxes throughout the spectrum. This would give us a \$16.25 tax per box (25 cigars per box) rather than the 0 tax collected from out of state sales.

Respectfully submitted,

Mark Miyahira
 SWAM
 Shiromas Wine and More
 98-1277 Kaahumanu St 104
 Aiea, Hawaii 96701

Current	
Taxes 2010	
july	\$46,392.00
aug	\$117,319.00
sept	\$70,772.00
oct	\$141,150.00
nov	\$54,568.00
Dec	\$68,461.00
Ave	\$83,110.33 50% of wholesale
\$166,220.67 in total boxes sold	
\$30.71 ave box cost	
5413 boxes sold in hawaii per month	
0.197% per capita buying boxes	

Proposed:

\$3.20 per 5 large cigars or
\$16.25 per box (25)

Our revenue would be:
\$87,954.60

Additional taxes collected
\$4,875.00

Total revenue
\$92,829.60

10 boxes each store = 300 boxes x \$16.25 per box

increase per store (30 outlets) which includes:

- Tamuras (4)
- R Fields (3)
- Fujiokas (2)
- South Pacific
- Tobac of Hawaii (2)
- Foodlands (10 selected)
- Island tobacco
- Sir Wilfreds
- Cigar Cigar
- Longs
- Safeway
- Mothers
- Times
- SWAM

Bottom line increase
\$9,719.27 per month
\$116,631.23 per year

Premium hand rolled brands include:

Fuente	\$75.00
Partigas	\$58.00
Macanudo	\$68.00
Sancho Panza	\$60.00
Punch	\$76.00
Hoyo de Monterey	\$70.00

low-end cigar brands include:

Swisher sweets	\$28.73
White Owl	\$18.72
Hava tampa	\$30.86
Garcia Vega	\$20.97
Dutch Masters	\$13.55
Black and Mild	\$15.78

\$21.44 Average

\$17.15 80%
\$13.57 20%

\$30.71 Average box cost

Testimony of Jon Fia
March 21, 2011
SB 233

As a resident of Hawaii I understand the difficult financial situation that exists. It is important we all do our part to help close the budget gap, however, I am writing to testify today that the premium cigar industry has already contributed much more than its fair share and the proposed increase is disproportionate to most other businesses in Hawaii:

□ In 2009, President Obama signed into law raising the Federal Tax on cigars by 700% (.05cents per cigar to .43 cents per cigar) At that time the State of Hawaii's share of revenues increased as the additional Federal Tax is included into the cost of goods and the OTP tax is based upon the cost of goods.

□ Just two years ago in 2009 the State of HAWAII increased its cigar tax from 40% to 50% representing a 25% increase in this tax.

□ As I read the bill, it now it appears the State of HAWAII is proposing a 3.20 tax for every 5 cigars in addition to the 50% cigar tax. A tax rate this high on cigars just exacerbates the problem of lost local sales to mainland internet and catalog retailers.

□ According to industry experts, the Premium Cigar Internet Business currently represents between 55-60% of all premium cigars sold in the U.S. Of course this number is an average for all states. For high cigar tax states such as Hawaii, cigar internet purchases are much much higher. Those consumers are already lost to HAWAII brick and mortar retailers; further increase of this tax will only serve to lose more in state consumers who send our money and potential tax revenue to the mainland. NO CIGAR taxes nor the state GE excise taxes are charged by on line sellers so this makes it very difficult for consumers to ignore savings of anywhere from \$50-\$100 on each box of cigars. Case in point I witnessed just a few days ago a consumer walk into a shop, inquire about cost on a specific box of cigars, was quoted a price by the retailer, and then said no thanks cause he can buy it online for 50.00 less. The retailer explained that we have a state tax, the consumer said 50.00 is 50.00 and walked out not purchasing anything. This situation happens time and time again to our local retailers. The retailer loses a sale, the state loses tobacco tax revenue and GE tax revenue.

□ I propose and would be in support of an amendment to have flat cigar tax cap that would allow Hawaii retailers to be competitive with mainland internet and catalog retailers. A convenient number would be to use some of the current wordage in SB 233. Just charge 3.20 per 5 cigars which works out to .64 cents a cigar. This is a fair number that would make us competitive. For example, Rhode Island has a higher tax but caps each cigar at \$.50 cents. This cap has served to increase tax revenues in Rhode Island as cigars are more competitively priced with online sellers. The recent increases New York made to their cigar tax has decimated the industry so much so that they are now considering a cap per cigar. Other states that have very high taxes like Washington State and Oregon have also implemented caps that have rejuvenated the industry and increased

state tax revenues. Having a cap would be an win-win situation for the retailers, the consumers, and for the state in increased tax revenue.

Premium cigars need not be bought in shops. It is extremely convenient to purchase online and consumers know this. An increase of the cigar tax will continue to chase business out of Hawaii thereby reducing revenues. Virtually every cigar enthusiast I know makes the majority of their cigar purchases via the internet. I am confident that this information I have provided is accurate and that the progressive measures taken by other states be considered or our state will continue to lose potential tax revenues to other states.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 22, 2011 2:00 PM
To: FINTestimony
Cc: mz9995@hotmail.com
Subject: Testimony for SB233 on 3/23/2011 2:30:00 PM

Testimony for FIN 3/23/2011 2:30:00 PM SB233

Conference room: 308
Testifier position: oppose
Testifier will be present: Yes
Submitted by: Michael Zehner
Organization: Hawaii Smokers Alliance
Address:
Phone:
E-mail: mz9995@hotmail.com
Submitted on: 3/22/2011

Comments:

The Hawaii Smokers Alliance is strongly opposed to any increase in the highly regressive taxes being imposed on constituents that enjoy tobacco.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 22, 2011 12:19 PM
To: FINTestimony
Cc: tobaccosofhawaii@yahoo.com
Subject: Testimony for SB233 on 3/23/2011 2:30:00 PM

Testimony for FIN 3/23/2011 2:30:00 PM SB233

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Justin Ingram
Organization: Tobaccos of Hawaii
Address:
Phone:
E-mail: tobaccosofhawaii@yahoo.com
Submitted on: 3/22/2011

Comments:
SB233 Written Testimony

To Whom It May Concern,

My name is Justin Ingram and I am the manager of Tobaccos of Hawaii. At Tobaccos of Hawaii we sell all types of tobacco products our main focus being premium cigars. As the manager of the store I am familiar with the spending habits of tobacco consumers. Whenever a tax increase goes into effect on any tobacco product sales decline. I have been told by customers again and again that they now buy the majority of their tobacco products via the internet or mail order. They are purchasing their products from states with lower tobacco taxes. When they do the State of Hawaii loses out on the tobacco tax and general excise tax. When the state increases the tax on tobacco products the state loses revenue.

I am against increased taxes on any tobacco product and don't see it as beneficial to the state or small businesses.

I am for a wholesale tax cap on premium cigars that reduces the tax on this product. With a tax reduction more cigars would be bought in the state and I believe there would be an increase in tobacco tax collected. The state would also receive the general excise tax from these sales. In addition small local business will see a boost in revenue.

Thank for your time.
Justin Ingram