



STATE OF HAWAII
DEPARTMENT OF HEALTH
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**Testimony in OPPOSITION to S.B. 2843
RELATING TO TAXATION**

SENATOR DONOVAN M. DELA CRUZ, CHAIR
SENATE COMMITTEE ON WAYS AND MEANS

Hearing Date: February 13, 2018

Room Number: 211

1 **Fiscal Implications:** None.

2 **Department Testimony:** The Department of Health (DOH) opposes Senate Bill 2843 (S.B.
3 2843) which proposes to amend §245-3, HRS by reducing the excise tax rate on sales of large
4 cigars from 50 percent of wholesale value to the lesser of: a) \$0.50 for each large cigar; or b) 50
5 percent of the wholesale price of each large cigar after July 1, 2018.

6 There is neither a public health nor fiscal justification for giving cigars of any size
7 preferential tax treatment. Cigar smoking is not a safe alternative to cigarette smoking. The U.S.
8 Surgeon General has declared that cigar smoke contains the same toxic substances as cigarette
9 smoke, with varying concentrations of these ingredients found in different types and sizes of
10 cigars.¹ The Federal Food and Drug Administration (FDA) states “all cigars are harmful and
11 potentially addictive (including small cigars, cigarillos, large cigars, and premium cigars). Cigar
12 smoking is strongly related to certain cancers (including oral, esophageal, laryngeal, and lung
13 cancers), heart disease, and premature death. Cigar smoking can cause cancers of the mouth and

¹ U.S. Department of Health and Human Services. The Health Consequences of Smoking-50 Years of Progress. A Report of the Surgeon General. Atlanta GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, p.428

1 throat, even for smokers who do not inhale.”² A large cigar may contain as much tobacco as a
2 whole pack of cigarettes.³

3 Low cigar prices may increase the number of youth who try cigars and become addicted.
4 A study presented at the Society for Research on Nicotine and Tobacco provided preliminary
5 confirmation that premium cigar use is increasingly being reported by young adults (18-29
6 years), and that such use is not restricted to older adults.⁴

7 There are no safe tobacco products, and there is no safe level of exposure to tobacco
8 smoke. Smoking and tobacco use are the leading cause of preventable death and disease in
9 Hawaii, claiming 1,400 lives each year, and exacting an excess of \$526 million in annual
10 medical costs directly attributable to smoking, according to the Centers for Disease Control and
11 Prevention (CDC) 2014 report “Best Practices for Comprehensive Tobacco Control Programs.”

12 Until recently, cigars had fewer federal regulations than cigarettes and other tobacco
13 products. This, along with their lower taxes, has resulted in increased popularity. While
14 cigarette smoking is declining across the nation, total consumption of all cigars increased
15 dramatically between 2000 and 2015. Cigar consumption increased by 100% while cigarette
16 consumption declined by 40%.² In Hawaii, current adult cigar use tripled from 3.2% in 2006 to
17 10.8% in 2010.

18 CDC research has shown that increasing the unit price of all tobacco products is an
19 effective strategy for curbing adult and youth smoking. Conversely, lowering the price of
20 tobacco products may increase smoking rates and discourage individuals from quitting. A cap
21 on the state large cigar tax could also be considered favoring those smokers who buy and smoke
22 expensive brands.

23 Thank you for this opportunity to testify.

² National Cancer Institute (NCI), Cigars: Health Effects and Trends, Smoking and Tobacco Control Monograph 9, 1998, <http://cancercontrol.cancer.gov/tcrb/monographs/9/index.html>

³ Baker, F., S. Ainsworth, J.T. Dye, et al., “Health Risks Associated with Cigar Smoking,” *Journal of the American Medical Association*, 284(6):735-740, 2000.

⁴ Coleman B.N., C.G. Corey, C.D. Delnevo, et al. “Use of Flavored Cigars, Cigarillos, and Little Filtered Cigars: Findings from the 2012-13 National Adult Tobacco Survey,” presented at the Conference for the Society for Research on Nicotine and Tobacco (2014).

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

LATE

SUBJECT: TOBACCO, Lower Tax Rate on Large Cigars

BILL NUMBER: SB 2843; HB 2083

INTRODUCED BY: SB by KOUCHI by request; HB by NAKAMURA

EXECUTIVE SUMMARY: Reduces the tax on large cigars to the lesser of: (1) 50 cents per cigar; or (2) 50% of its wholesale price on and after July 1, 2017.

SYNOPSIS: Amends HRS section 245-3 to provide that large cigars shall be taxed at the lesser of: (1) 50 cents per cigar; or (2) 50% of its wholesale price on and after July 1, 2018.

EFFECTIVE DATE: July 1, 2018.

STAFF COMMENTS: Presently, the tobacco tax on large cigars is 50% of the wholesale price. This measure would reduce it to either 50 cents each, or 50% of the wholesale price, whichever is less, on and after July 1, 2018.

The adoption of this measure would, in theory, lower the price of large cigars, but it is questionable why the legislature would want to single out costly large cigars for a tax break.

In addition, because the tobacco tax now feeds several special funds, the recipients of largesse from those special funds, such as the University of Hawaii Cancer Center and the John A. Burns School of Medicine, would be negatively impacted by a reduction of this tax.

Digested 2/11/2018

Testimony **STRONGLY OPPOSING** SB 2843, “Relating To Taxation”

The American Heart Association **STRONGLY OPPOSES** SB 2843, “Relating to Taxation.”

Cigar use is a significant public health concern. Cigars—just like cigarettes and other tobacco products—are not safe. Cigar smoking exposes users to toxic chemicals; causes cancer of the oral cavity, larynx, esophagus, and lung; and increases risk for heart disease, chronic obstructive pulmonary disease, and aortic aneurysm. Exposure to secondhand cigar smoke also places nonsmokers at risk.

While cigarette smoking has been gradually declining in the United States, cigar smoking has recently increased dramatically. More importantly, cigar smoking is not limited to adults; it is the second most common form of tobacco use among youth. Recent Youth Risk Behavior Survey data shows young adults (ages 18-24) have the highest cigar smoking rate at 15.9 percent compared to 6.6 percent of all adults that smoked cigars in the past month. Cigars also appeal to youth because they, unlike cigarettes, can be purchased individually.

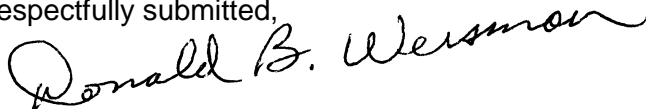
Cigars are Under Taxed & Less Restricted. The federal government and almost all of the states compound these problems by sharply under-taxing cigars compared to cigarettes, often making smaller cigars a less-expensive alternative to cigarettes. Moreover, many laws and restrictions pertaining to cigarettes – such as federal laws banning flavored cigarettes, blocking illegal Internet sales and restricting cigarette marketing – do not apply to cigars.

In addition, Hawaii data shows that state tax revenue for cigar sales actually rose between Fiscal Year 2015 and 2016, increasing by 3.9%, indicating a need to not only stay the course on these taxes, but to begin considering actually raising them to serve as a dissuasion to young people considering experimentation with these lethal products.

Because of these reasons, the AHA strongly opposes suggestions that cigar taxes be capped or reduced. If anything, cigar taxes should be increased to create parity with cigarette taxes in Hawaii.

The American Heart Association urges legislators to oppose SB 2843.

Respectfully submitted,



Donald B. Weisman
Hawaii Government Relations/Communications Director



LATE

To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, February 13, 2018
Time: 10:15 a.m.
Place: Conference Room 211, State Capitol

From: Les Drent
for the Kauai Cigar Company

Re: SB2843, Relating to Taxation

Dear Senator Dela Cruz and Members of the Senate Committee On Ways and Means,

The Kauai Cigar Company, its employees, and industry partners stand in strong **SUPPORT** of SB2843, a bill that places a tax cap of 50¢ on large cigars.

This bill, if passed, would bring parity to the Hawaii tax code, and our Kauai grown cigars would finally be treated fairly under the law. For years, our company has been paying much more than its fair share of taxes as a result of an extremely high cost of production here in the Islands. Because the tax rate is percentage based, our competitors are selling the same size cigars, but are able to charge less tax as a result of a much lower cost of goods. Furthermore, many of our competitors' cigars are made entirely by machine and sell at very low price points, thus driving the tax liability to a mere fraction of what Kauai Cigar Company must pay every month on its M19 returns.

Also impacting our farming business negatively is the loss of sales as a result of many Hawaii consumers purchasing lower priced mail order premium cigars from outside of Hawaii. We strongly believe that few, if any, of these consumers file usage tax returns on their out of State purchases. We lose, the Department of Revenue loses, and ultimately the people of Hawaii lose with the loss of tax collection.

Even under this unfair tax structure, no farm laborer is paid less than fifteen dollars per hour, and full time employees receive the benefit of full health care insurance, paid in full by the company. Every employee is covered by Worker's compensation insurance, and Temporary Disability Insurance. When you add all this together and tax the final product at 50% what you have are cigars that are priced between ten to twenty dollars by the time they hit store shelves. And at these prices, we would venture to guess that these cigars never reach the hands of a youth consumer!

For all these reasons listed, all of us at Kauai Cigar Company applaud each and every Hawaii Legislator that recognizes our hard work, and our right to be treated fairly under Hawaii tax code.

Sincerely,

Les Drent
Farmer/President

Kauai Cigar Company
6200 Kawaihau Road, Unit B, Kapaa, HI 96746 USA
Ph: 808-822-4495 Fax: 808-822-9731



LATE

To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, February 13, 2018
Time: 10:15 a.m.
Place: Conference Room 211, State Capitol

From: Les Drent
for the Hawaii Cigar Association

Re: SB2843, Relating to Taxation

Dear Senator Dela Cruz and Members of the Senate Committee On Ways and Means,

The Hawaii Cigar Association (HCA) supports the findings of the Legislature, and we also support SB2843, a bill that places a tax cap of 50¢ on large cigars.

The HCA contends that large cigars are rarely--if ever--possessed or consumed by minors and therefore pose negligible risk to them. Children are not attracted to cigars, and their cost--between \$5 and \$30 apiece on average--prices them beyond the reach of most minors.

The HCA is committed to protecting the freedom of legal-age adults to enjoy cigars. Pursuant to that aim, HCA is also committed to revising the burdensome Hawaii tax code, which disadvantages local cigar retailers, and the Kauai grown cigar industry by requiring it to pay far more than its fair share in taxes for their artisanal products. The current wholesale tax of 50% also incentivizes consumers to buy cheaper cigars from unlicensed sources outside the state.

The HCA stands united with the Legislature in ensuring that Hawai'i's youth be discouraged from using tobacco of any kind, including cigars.

On behalf of all those who enjoy cigars, we thank you for your consideration on this very important tax bill. This law would bring parity to the tax code, support local businesses, and farms, and keep Hawaii's tax dollars at home.

Sincerely,

A handwritten signature in black ink, appearing to read "Les Drent".

Les Drent
for the Hawaii Cigar Association

For More Information on the Hawaii Cigar Association please visit

hawaiicigarassociation.org



CAP THE CIGAR TAX!

Create Fairness and Equal Opportunity for Hawaii Businesses

Tax Caps in other US States with high % Cigar Taxes

Arkansas
(68% mfr. price, 50¢ cap)

Connecticut
(50% wholesale, 50¢ cap)

Florida
(no tax on cigars)

Iowa
(50% wholesale, 50¢ cap)

Michigan
(32% wholesale, 50¢ cap)

New Hampshire
(No tax on premium cigars)

Oregon
(65% wholesale price, 50¢ cap)

Pennsylvania
(no tax on cigars)

Rhode Island
(80% wholesale price, 50¢ cap)

Wisconsin
(71% mfr. price, 50¢ cap)

Washington
(95% taxable sales price, 75¢ cap)

US Government
(52.75% mfr. price 40.26¢ cap)

hawaiicigarassociation.org

LATE

TO: Chair Donovan Dela Cruz and Members of the Senate Committee of Ways and Means

FROM: Mokule'ia Cigar Company

RE: SB 2843, Large Cigars; Excise Tax
Hearing Date: February 13, 2018
Time: 10:15 AM

My name is Kalani Matsuura and I am the owner of Mokule'ia Cigar Company. I started retailing large premium cigars in June of 2014.

I support SB 2843 which creates a tax cap on the sale of large premium cigars. I am a tobacconist and a consumer of large premium cigars. Until becoming a cigar retailer I purchased majority of my large premium cigars online. Purchasing cigars online gains no revenue for the state. The cap would benefit local cigar retailers, consumers and generate revenue for the State. The cap will allow local retailers to price premium cigars at competitive rates and consumers will have the opportunity to purchase premium cigars at fair market value. The State would see an increase in local sales thus, gaining tax revenue for the State. Protection of our current brick and mortar cigar stores and cigar retailers is paramount. The tax cap will provide the local cigar industry potential for growth and stability.

Mahalo for considering this testimony.



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LATE

**TESTIMONY OF TINA YAMAKI
PRESIDENT
RETAIL MERCHANTS OF HAWAII
FEBRUARY 13, 2018**

Re: SB 2843 Relating to Taxation.

Good morning Chair Dela Cruz and members of the Senate Committee on Ways and Means. I am Tina Yamaki, President of the Retail Merchants of Hawaii and I appreciate this opportunity to testify.

The Retail Merchants of Hawaii (RMH) is a statewide not-for-profit trade organization committed to supporting the retail industry and business in general in Hawaii. The retail industry is one of the largest employers in the state, employing 25% of the labor force.

The Retail Merchants of Hawaii opposes SB 2843 Relating to Taxation that essentially increases the excise tax on cigars.

Many retailers statewide are already operating on a thin margin and face stiff competition from not only other brick and mortar retailers but online sales as well. By increasing the taxation on these products, small businesses will stand to be hurt the most. Unfortunately many locally owned shops, especially the Mom and Pop types will be hit hardest by the tax increase and many may not survive.

We ask that this committee hold this measure.

Again mahalo for this opportunity to testify.

SB-2843

Submitted on: 2/12/2018 11:26:47 AM

Testimony for WAM on 2/13/2018 10:15:00 AM

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Ryan Oswald	Individual	Support	No

Comments:

SB-2843

Submitted on: 2/12/2018 3:51:56 PM

Testimony for WAM on 2/13/2018 10:15:00 AM



Submitted By	Organization	Testifier Position	Present at Hearing
Jon Fia		Support	No

Comments:

I am reaching out to you today to **STRONGLY SUPPORT** and vote **AYE** on SB2843 written only as an excise tax cap on large or premium cigars.

Creating a tax cap on large or premium cigars is not going to create new cigar smokers; all the cigar smokers already exist and we are here to stay. The tax cap will control whether we spend our money locally within the state of Hawai'i and generate taxable revenue for local and small businesses, or with no tax cap cigar enthusiasts will continue to send their money out-of-state via mail order purchases and online purchases and the state will not recuperate any tax revenue. Close to 68% off all cigar purchases in the country are via online/mailorder. In high tobacco tax states such as Hawaii, it is even higher. I am very in touch with the cigar market here and I would easily estimate over 90% (realistically 95%) of cigar purchases are made online. All residents and locals of the state of Hawai'i inherently want to support local businesses and keep the money within the state--we all benefit. It is important to all of us consumers and purveyors of large or premium cigars that you understand. If the local retailers were able to compete on an even playing field, it would create new jobs and generate revenue for the state.

Premium or large cigars, with or without a tax cap, are already strictly regulated at the Federal level by FDA and at the State level with regard to age verification and preventing youth from purchasing premium and large cigars. Premium and large cigars are not marketed to youth. The local, small businesses that retail premium or large cigars conform strictly to those Federal and State laws preventing youth from purchasing these adult, legal products.

When reviewing all of the testimony, please keep in mind that this is a bill regarding taxation, not a bill regarding health.

In summary, **STRONGLY SUPPORT** and vote **AYE** on SB 2843 written **ONLY** as an excise tax cap on large or premium cigars.

Thank you for your time and support!

LATE

SB-2843

Submitted on: 2/12/2018 4:09:19 PM

Testimony for WAM on 2/13/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Vince Yamashiroya, MD	Individual	Oppose	No

Comments:

I am a pediatrician in private practice in Honolulu and I strongly oppose SB2843, which would lower the tax on large cigars to the lesser of a) 50 cents each or b) 50 percent of the wholesale price for each cigar.

Cigars are tobacco products and are not a safe alternative to cigarettes. Cigars vary widely in sizes, flavor, and packaging that make them appealing and appear less harmful to broader audiences including kids. Cigar smoking causes cancer, heart disease and chronic obstructive pulmonary disease (COPD). Large cigars can contain more nicotine, tar, and carbon monoxide than cigarettes.

Hawai'i ranks among the highest in the nation on passing smoke-free and tobacco control laws protecting our residents and children. Lowering or capping taxes on any tobacco product sends the wrong public health message. Large cigars are already taxed at lower rates than other tobacco products. Lowering the tax on large cigars compared to cigarettes and small cigars will make these products more affordable to price-sensitive youth and encourages those smoking cigarettes to switch to cigars, rather than quit. Further, lowering the tax will make it even more appealing for teens to start smoking.

Hawai'i has been leading the way in tobacco control, and this bill is a step backwards for our State. I strongly oppose SB2843 and ask you to hold this bill in committee.

LATE

SB-2843

Submitted on: 2/12/2018 5:28:27 PM

Testimony for WAM on 2/13/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ronald Brooks	Individual	Support	No

Comments:

LATE

SB-2843

Submitted on: 2/12/2018 6:23:27 PM

Testimony for WAM on 2/13/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Jarrett Imamura	Individual	Support	No

Comments:

Hello,

I am an avid cigar smoker. I smoke with good friends of mine and it is an enjoyable and relaxing time to catch-up, have fun, and enjoy each other's company.

I also support small businesses here in Hawaii. With regards to cigar small businesses, I support Honolulu Cigar Company, Tobaccos of Hawaii, and R. Field. However, part of the issue is our 50% OTP tax that small businesses have to pay, and pass on to cigar smokers like me. By having a \$0.50 cap, it would allow local businesses to compete price-wise with mainland mail-order retailers. It would keep more business in Hawaii and keep it from going out of state. Thank you.

LATE

SB-2843

Submitted on: 2/12/2018 10:02:32 PM

Testimony for WAM on 2/13/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
John Miranda	Individual	Support	No

Comments:

Aloha,

This bill will allow local retailers to be more competitive in the market. It will allow large cigars to be completely priced to their mainland peers. Buy local, keep the business in Hawai'i and support the stores in business here that allow us to enjoy the hobby.

Mahalo.

LATE

SB-2843

Submitted on: 2/13/2018 8:30:29 AM

Testimony for WAM on 2/13/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Dory Kong	Individual	Support	No

Comments:

LATE

From: mkusch@everyactioncustom.com on behalf of [matthias kusch](#)
To: [WAM Testimony](#)
Subject: Strong Opposition to SB2843, Relating to Taxation
Date: Tuesday, February 13, 2018 7:09:53 AM

Dear Senate Committee on Ways and Means,

To: The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Senate Committee on Ways and Means

Hrg: February 13, 2018 at 10:15am in Capitol Room 211

I strongly oppose SB2843, which would lower the tax on large cigars to the lesser of a) 50 cents each or b) 50 percent of the wholesale price for each cigar.

Cigars are tobacco products and are not a safe alternative to cigarettes. Cigars vary widely in sizes, flavor, and packaging that make them appealing and appear less harmful to broader audiences including kids. Cigar smoking causes cancer, heart disease and chronic obstructive pulmonary disease (COPD). Large cigars can contain more nicotine, tar, and carbon monoxide than cigarettes.

Hawai'i ranks among the highest in the nation on passing smoke-free and tobacco control laws protecting our residents and children. Lowering or capping taxes on any tobacco product sends the wrong public health message. Large cigars are already taxed at lower rates than other tobacco products. Lowering the tax on large cigars compared to cigarettes and small cigars will make these products more affordable to price-sensitive youth and encourages those smoking cigarettes to switch to cigars, rather than quit. Further, lowering the tax will make it even more appealing for teens to start smoking.

Hawai'i has been leading the way in tobacco control, and this bill is a step backwards for our State. I strongly oppose SB2843 and ask you to hold this bill in committee.

Sincerely,
matthias kusch
Hilo, HI 96720