



OHIO WHOLESALE MARKETERS ASSOCIATION

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Testimony on the State Budget (HB96)

House Finance Committee

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Ohio Wholesale Marketers Association

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Chairman Stewart, ViceChair Dovilla, Ranking Member Sweeney and members of the Finance Committee, thank you for the opportunity to provide my membership's perspectives on the tobacco category tax increases proposed in House Bill 96, the state budget bill for fiscal years 2026 and 2027.

The Ohio Wholesale Marketers Association's core membership is wholesalers who supply products to convenience stores, neighborhood markets, concessions, restaurants and even colleges/universities. With few exceptions, the Association's distributor members are Ohio-based family-owned businesses that have served their communities for one or more generations. These wholesalers sell much more than just tobacco, but manufacturer pricing plus federal and state taxes on the tobacco category pushes it to 70 to 90 percent of a typical wholesalers overall dollar sales, even though unit sales continue to decline.

Cigarette and tobacco product taxes are not collected in stores at the register. These taxes are collected and remitted at the wholesale level so consequently, tax increases have an immediate and direct impact on these wholesale businesses.

Wholesale Cash Flow

The manufacturer-wholesaler relationship is outside of the scope of your responsibility as policy makers. However, it is important to know that these products that are taxed at the wholesale level are also subject to manufacturer mandates that impact the wholesaler's cash flow and overall business. Major manufacturers require that wholesalers pay for cigarettes before they're delivered to the wholesaler's facility, with payment terms ranging from three days in advance of delivery to payment on delivery. Popular brands of cigarettes at today's mfg list price to the wholesaler cost \$4,616/case (60 cartons), and some require 15 case minimums per order. Then, the wholesaler has to buy tax stamps from the state and affix them to each pack before selling them to retailers who often have payment terms. The wholesaler does not recoup the state excise tax that they fronted to the state until the retailer pays the wholesaler.

In all fairness to tobacco category manufacturers, some manufacturers of popular candy/snack and other consumer packaged goods also strain cash flow for these wholesalers with bracket pricing and minimum orders that can change at any time. The point is, as manufacturers of consumer products are working to improve their efficiencies and bottom lines, the wholesaler's ability to maintain positive cash flow is constantly challenged. Tax increases on the segment of their business that represents 70 to 90 percent of overall sales mean additional cash flow challenges.

Cigarette Excise Tax Stamps

OWMA's wholesalers are the state's tax agents and front end payers of the cigarette tax. The tax is an immediate tax on wholesalers who must buy cigarette excise tax stamps from the state and apply the stamps to each pack of cigarettes before selling the product to retailers. The stamp is proof that the tax has been paid.

At today's tax rate of \$1.60/pack, one roll of tax stamps costs the wholesaler \$48,000 (minus the wholesaler stamping compensation). The proposed tax increase to \$3.10/pack will take one roll of stamps to \$93,000.

Cigarette Tax Stamp Costs: Current vs. HB 96

	Monthly # Tax Stamp Rolls Needed	Monthly Tax Stamp Costs*	
		Current Cost 1.60/stamp	HB 96 Cost 3.10/stamp
Small Wholesaler	12	\$565,632	\$1,105,200
Mid-Size Wholesaler	40	\$1,885,440	\$3,684,000
Large Wholesaler	200	\$9,427,200	\$18,420,000

*current monthly tax stamp cost includes current 1.8% stamping compensation / *HB96 cost reflects HB96 proposed change from 1.8% stamping compensation to 3-cents/stamp

Cigarette Stamping Compensation

Last fiscal year wholesalers remitted \$636.5 million in cigarette taxes to the state. These are the state's taxes and wholesalers are providing a service for the state at significant cost to their own businesses.

When wholesalers buy the tax stamps from the state, their cost per roll is the full value of the roll minus 1.8%. This 1.8% is compensation to the wholesalers for their costs associated with being the state's cigarette taxpayer. Their costs include:

- Financing/interest expense: cost of financing inventory of stamps, including financing accounts receivable as it relates to the stamp portion of the cigarette sale to retailer;
- Shipping charges to get the stamps from the state;
- Insurance on stamps while in transit from state to the warehouse, and while they are in the warehouse;
- Cigarette stamping machine: machine cost (depreciated), maintenance, operating supplies needed for the machine; insurance on machine;
- Warehouse costs allocated to the stamping area (rent, utilities, facility insurance, security features)
- Employee labor costs (wages, fica, benefits) for personnel who run the stamping process and personnel who handle monthly cigarette tax return filings with the state to report stamps bought and stamps used.

The tax increase in HB96 combined with the Tax Department suggestion to change the compensation from 1.8% of the value of the tax to 3-cents/stamp is a significant cut in the wholesaler stamping compensation. The Tax Department assumes that wholesaler costs do not increase when the tax increases. This is not correct. Utility costs to operate the machines increase, costs for machine operating supplies and maintenance contracts increase, insurance costs to cover the stamping equipment and stamps increase, employee costs increase. *Wholesalers are not making money on the stamping compensation, but it does rightfully help cover their costs and it should remain at 1.8% of the full amount of the tax, ie full value of the stamp.*

Wholesalers incur significant costs for the state to get the tax on a product that the state doesn't want adults to use but that the state does want adults to use because the state wants the taxes. We pay for the product before it hits our warehouse floor, buy and maintain expensive stamping machines, pay the state to send us the stamps (unless the company has proximity to pick them up), hire and incur the employment costs of stamping machine operators, prepare all tax returns to ensure all tax is collected and paid to Ohio, warehouse and transport the product to retailers and extend and absorb credit terms and losses if a retailer fails to pay. My company does this for less than 4% margin. The state, on the other hand, is getting almost 20% margin via the tax that is guaranteed to the state by the work of my company. Thus, my company does all of the work for Ohio to collect their current 20% and does this work for less than 4%. HB 96 wants to take the tax on cigarettes from \$16 per carton to \$31 per carton, which becomes a 40% margin for the state, with no additional work for the state but my cost will go up. And at the end of the year if my company manages to turn a profit, the state taxes it.

*Gregory Wellingshoff, President / The Keilson Dayton Company
Testimony to the House Ways and Means Committee 2.26.2025*

Other Tobacco Products

Other tobacco products (OTP) are everything containing tobacco except cigarettes and the tax is calculated on the manufacturer price to the wholesaler. The wholesaler remits the tax each month based on shipments they received from manufacturers the prior month. As with cigarettes, wholesalers are the frontend taxpayer and tax agents for the other tobacco products tax and if the retailer doesn't pay for the tobacco products the wholesaler is still obligated to remit the tax to the state.

One of the biggest challenges and frustrations when it comes to OTP is the reality of untaxed OTP getting into Ohio from lower taxed states. OTP traffickers sell to retailers who know they are buying untaxed product. They also buy some of the same product from a taxpaying wholesaler, just so they'll have an invoice available if enforcement agents stop by, and they mix the untaxed product in with the taxed product. It's very easy, very profitable and very hard to detect.

House Bill 96 more than doubles the OTP tax rate --- taking it to 42% -- which increases wholesaler risk of loss from unpaid accounts/account receivables and increases insurance costs on inventory. This proposed increase also does nothing more than give the already illegal operators more incentive to come into Ohio, and it will put Ohio's taxpaying wholesalers at more of a disadvantage all while costing the state tax revenue that should otherwise be collected.

Doubling the vapor product tax creates the same cross border issues, with the added issue of encouraging more online sales that only mean Ohio's business lose their customers and the state does not get the expected tax revenue. Pulling non-tobacco nicotine into the vapor category makes no sense and is not workable for the category and the wholesalers who would pay the tax.

Other Tobacco Products Tax Collector Compensation

Last fiscal year wholesalers remitted \$113.9 million in other tobacco product taxes to the state. Just like with cigarettes, this is the state's tax, and the wholesalers are providing a tax collection and remittance service for the state at a cost to their own businesses.

HB96 eliminates the 2.5percent that wholesalers retain when they remit the OTP tax to the state. As the front-end taxpayers and tax agents for the other tobacco products tax, wholesalers incur costs that include financing accounts receivable as it relates to the tax of the other tobacco product sale to retailers, insurance on the tax as part of the product in inventory and costs associated with monthly tax report filings, including system updates and changes for electronic filing. The 2.5percent that wholesalers retain rightfully helps cover their costs and should not be eliminated. Even the state retains a percentage of the tax receipts for a number of local taxes that are administered by the state and remitted to the local governments.

Broader Consequences to Consider

Cross Border and Online: Cross border and online sales do happen and that means lost tax revenue for the state *[see attached]*.

There are no less than 1,369 retailers in Ohio's neighboring states that are 10 miles of Ohio's border. These stores will welcome the opportunity to sell cheaper cigarettes and other tobacco products to Ohio consumers. This is a loss of state excise tax for Ohio, a loss of state sales tax for Ohio and a loss of much needed local sales taxes for local governments in Ohio.

Based on what we saw when Ohio's tax increased 70-cents/pack in 2005, we expect more consumers will go to our neighboring states if our cigarette tax increases. Other tobacco products and vapor consumer will also be more inclined to cross borders.

Keep in mind that "cross border" is not limited to state borders. The internet has broken the border barrier and tax free cigarettes are available from a range overseas websites. Even with shipping costs, major brands through these sites can cost 40 to 50 percent less than buying them in an Ohio store. Tax free cigars and all other segments of the other tobacco product category plus the entire e-cigarette/vapor category are also available online and those tax-free resources become more attractive to consumers when taxes are increased. Despite state and federal laws that are intended to stop internet purchases and direct shipments to consumers, online sales are thriving.

Mr. Chairman and members of the committee, I know I have covered a lot and I thank you for your patience and attention. There is much more that could be said but at this point I will thank you for your time, and I will do my best to answer any questions.

	Cigarette Tax	AdValorem Tax Other Tobacco Products Tax*
OHIO (current)	\$1.60	17%
OHIO (proposed)	\$3.50	42%
Indiana	99.5cent	24%*
Kentucky	\$1.10	15%*
West Virginia	\$1.20	12%
Pennsylvania	\$2.60	No Tax on Cigars
Michigan	\$2.00	32%

* Indiana and Kentucky tax moist segment taxed on weight;

* Pennsylvania ryo, chewing, snuff, pipe, etc taxed on weight, eff 2016.

**Examples of Pack Sale Changes Following
2005 Ohio Tax Increase**
Ohio Counties v. Corresponding Border State Counties³

County	State		Increase/Decrease in Pack Sales
Darke	Ohio	↓	-26.76%
Mercer	Ohio	↓	-19.04%
Adams	Indiana	↑	10.05%
Wayne	Indiana	↑	15.03%
Randolph	Indiana	↑	8.82%
Jay	Indiana	↑	9.41%
Hamilton	Ohio	↓	-17.97%
Clermont	Ohio	↓	-16.81%
Brown	Ohio	↓	-19.89%
Campbell	Kentucky	↑	118.74%
Kenton	Kentucky	↑	10.07%
Mason	Kentucky	↑	15.90%
Dearborn	Indiana	↑	29.20%
Lawrence	Ohio	↓	-35.16%
Gallia	Ohio	↓	-30.70%
Boyd	Kentucky	↑	24.64%
Greenup	Kentucky	↑	20.99%
Casell	West Virginia	↑	18.80%
Wayne	West Virginia	↑	14.59%
Mason	West Virginia	↑	56.05%

When Ohio's cigarette tax increased by 70-cents/pack in 2005, border counties in Ohio saw a **decrease** in pack sales ranging from 17.9% along the Indiana border to just short of 37% along the West Virginia border. At the same time, sales in Indiana counties that border Ohio **increased** by 14% and in West Virginia by 24%. Ohio sales along the Kentucky border dropped by 18.5%, but sales just over the border in Kentucky increased by 26%.

In border states, **20.6 million more packs**, were sold worth **\$11.3 million** at Ohio's tax rate .before the tax increase

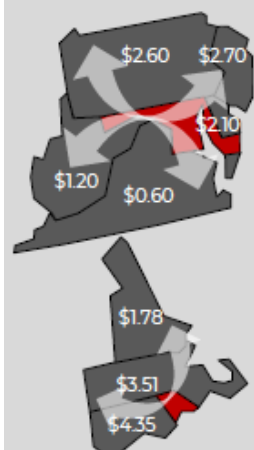
Source: wholesale to retail shipment data reported by wholesalers; wholesaler contracts with mfgs require this data be reported to a third party non-mfg data collection firm. Data based on quarter prior to 2005 cigarette tax increase compared to same quarter following the tax increase.

Ohio benefitted from a reverse cross border impact following the 2016 Pennsylvania \$1/pack cigarette tax increase. Wholesale to retail shipment data from just three Ohio stores near Pennsylvania show that shipments increased for each store following Pennsylvania's August 1, 2016 tax increase, and took total 2016 shipments above 2015 levels.

Reverse Cross Border into Ohio Following Pennsylvania Cigarette Tax Increase (eff. 8/1/16)
Examples of Wholesale to Retail product shipments

Store Location	2015 Cigarette Cartons	2016 Cigarette Cartons	Total 2016 Cartons Before PA Tax Increase (Jan-July)	Total 2016 Cartons After PA Tax Increase (Aug - Dec)	2016 Jan - Feb Cartons	2017 Jan - Feb Cartons
Conneaut, OH	8811	9389	4681	4708	1089	1367
Lowellville, OH	7674	9939	3760	6179	1009	2054
Masury, OH	7548	8445	3953	4492	1074	1799
Totals	24,033	27,773	12,394	15,379	3,172	5,220

Recent Examples from Other States: Cross Border Sales after Cigarette Tax Hike



\$5.00
MD's new cigarette tax per pack

MD raised cigarette taxes 33% in July 2024.

The result? In MD, **-14% fewer** cigarette packs were sold (Apr-Jun 2024 vs. Jul-Sep 2024)⁴

In border states, **2 million more packs** in just 3 months. Annualized, worth **\$26 million*** at MD's previous tax rate.

\$4.50
RI's new cigarette tax per pack

RI raised cigarette taxes 6% in September 2024

The result? In RI, **-8% fewer** cigarette packs were sold and **lost -4%** in cigarette revenue (May-Aug 2024 vs. Sep-Dec 2024)⁵