

Testimony on H.B. 96 Impact of Cigarette and Tobacco Tax increases

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**Ohio House of Representatives – Ways & Means Committee
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Chairman Roemer, Vice Chairman Thomas, Ranking Member Troy and members of the committee, thank you for this opportunity to present testimony surrounding the impact of the proposed cigarette and tobacco tax increases in H.B 96 on my company. I am the President of Adco Distributors Inc., a stamping wholesale distributor of cigarettes and other tobacco products Canton, Ohio and the current Chairman of the Board of the Ohio Wholesale Marketing Association. I have worked in and around the convenience store products industry for 30 years. I have worked on the manufacturing side for Swisher International, Imperial Tobacco, GoodMark Foods, and ConAgra Foods Group. I have also spent 14 years on the distribution side of the business with Gordon Food Service and the last ten years at Adco Distributors Inc., which also operates two tobacco stores. I have experience in many aspects of the convenience store industry.

Adco is a full-service convenience store product distributor that offers, in the order of importance to store revenue, cigarettes, other tobacco and vapor, non-alcoholic beverages, snacks, candy, grocery, sundries, health and beauty. In our most recent fiscal year ended December 31, 2024, cigarettes and tobacco products represented 95.3% of my company's gross revenue. Adco and its subsidiary businesses currently employ 37 Ohioans.

Adco's 2024 revenues were \$62 million. The make-up of our sales is 77% cigarettes, 19% tobacco and related products which include cigars, vapor products, nicotine pouches, chewing tobacco and roll your own tobacco products. In 2024 Adco purchased and affixed \$10.5 million in cigarette tax stamps (approximately 220 rolls of stamps) and collected/remitted to the state \$1.4 million in OTP and vapor products excise taxes, all for the benefit of Ohio. Tax collection is 20% of our total revenues. Cigarette stamping and OTP/vapor product tax collectors like Adco secure Ohio's fourth largest tax revenue source.

My company's compensation from the cigarette excise tax collection services done for Ohio in 2024 was approximately \$189,000 and Adco's operating expenses going towards tax collection was approximately \$242,000 as itemized below. We are opposed to eliminating the cigarette stamping compensation and the compensation we receive for collecting and remitting the other tobacco products tax, which also doesn't happen without expenses to our company.

2024 Cost for stamping cigarettes at current \$1.60 excise tax per pack	
Refurbished Machine cost amortized over 20-year useful life.	\$23,450.00
Annual maintenance cost of machine.	\$11,345.00
Labor Cost of 2 full-time employee for picking and stamping of cigarettes.	\$79,280.35
Cost to transport stamps from tax department to our facilities	\$42,900.00
Insurance on tax stamps while in possession of Adco Distributors	\$2,700.00
Bank Interest charged on tax stamps held in inventory or sold on credit to retail in excess of credit terms granted by the state of Ohio.	\$16,420.00
Bank interest charged for funds borrowed during Ohio's COD period.	\$15,682.00
Rent on 4500 sq foot warehouse space allocated to stamping operation.	\$21,000.00
Utilities associated with stamping	\$11,840.67
Professional labor allocated to tax stamp reporting to Ohio each year.	\$17,842.00
2024 Total costs associated with stamping.	\$242,460.00

Unlike cigarettes, there is no uniform packaging across the other tobacco products and vapor categories so it's not possible to run them through a stamping machine. The tax is a percentage of what we pay the manufacturer, currently 17% for other tobacco products. Smugglers and transshippers know that tax variations across state borders can be exploited to give them an immediate price advantage over businesses like mine that collect and pay the taxes due to Ohio. Adco distributes solely in Ohio and about 10% of our customer base is in the border counties of Columbiana, Mahoning and Trumbull. A portion of our sales are already negatively impacted by smugglers and transshippers who bring products from Pennsylvania, where there is no tax on cigars, and they undercut my price by a minimum of 17%, which

not coincidentally is Ohio's tax rate. They are taking tax paid sales from my business, which takes tax revenue from Ohio. Raising the OTP tax to 42% takes Ohio's tax rate above all our border states and will quickly decrease the amount of revenue the state receives because the illicit sales to avoid the tax will increase dramatically from where they already are today. The sellers of untaxed products won't stop a border county or two into Ohio because the profit to be made by selling untaxed products will be too lucrative for them and too lucrative for stores who are willing to buy untaxed tobacco from them.

An example of the price differential using a cigar 2-pack for consumer purchase:

- Manufacturer price to Adco: \$21.60 per retail package of 30 saleable units.
- Adco adds the 17% excise tax (\$3.67) + my company 4% markup (\$1.01) for a medium volume store that buys 10+ retail packages of 30 saleable units per week = \$26.28 is my price to the retailer
****The state is receiving \$3.67 in tax from Adco adding the tax into my price to the retailer and then Adco remitting that tax to the state****
- If a retailer buys the same cigars from a transhipper who just marks it up from the manufacturer price of \$21.60 to \$24 and doesn't include the Ohio excise tax, the retailer saves \$2.28 vs buying tax paid from me. For the store this equals \$22.80 savings per week and jumps to \$1,185 per year on one product sku in their store. The transhipper makes \$2.40 per retail package and \$24 on the same 10+ retail package drop that I make less on, because I am including the tax in my price to the retailers.
- There are more than 20 high volume cigar sku's in similar consumer packaging, and the scenario above applied to all of the sku's can add \$25,000 to a store's bottom line if it is buying from a smuggler/transhipper that isn't paying the Ohio excise tax instead of buying from Adco, the business that does pay the state excise tax. Tax evasion happens and it's lucrative.

Now take the same example above and apply the proposed 42% excise tax. The excise tax added and remitted by Adco would be \$9.07 per retail package of 30 saleable units. My price to the retailer is \$31.89 with the excise tax and my 4% markup included.

- If a retailer were to purchase from a smuggler/ transhipper who marks up from the manufacturer price of \$21.60 to \$28, the retailer would save \$3.89 per retail package, which is \$38.90 per week or \$2,023 per year on one product in their store. The transhipper makes \$6.40 per tax-freee retail package and \$64 on the same tax-paid 10+ retail package drop that I make less on.
- There are more than 20 high volume cigar sku's in similar consumer packaging. A retailer could add \$40,000 to the bottom line by buying from a smuggler/transhipper who is not collecting/remitting the tax to Ohio.

The reality is that any increase in Ohio's tobacco and vapor tax rates will make it more lucrative for tax avoidance. Businesses willing to deal in untaxed product will win, taxpaying wholesalers and retailers will lose, and Ohio will lose.

The HB 96 proposal on cigarette taxes will reverse Ohio's current net gain in cigarette tax and related sales tax revenue on the Ohio-Pennsylvania border. The increase will send adult consumers to Pennsylvania, at a revenue loss to my business, Ohio retailers and the state of Ohio. It will do the same on the Ohio-Michigan border. As a state Ohio already loses tax revenue to Indiana, Kentucky and West Virginia, and Ohio will lose even more if our tax rates increase. The chart below details these facts.

Cigarette Tax Rate – Current 2/24/2025		Cigarette Tax Rate – Proposed HB 96	
Pennsylvania	\$2.60	Ohio	\$3.10
Michigan	\$2.00	Pennsylvania	\$2.60
Ohio	\$1.60	Michigan	\$2.00
West Virginia	\$1.20	West Virginia	\$1.20
Kentucky	\$1.10	Kentucky	\$1.10
Indiana	\$.99	Indiana	\$.99

My career in the convenience store products industry has shown me the damage that over-taxation can have on a state's sales and therefore the tax revenue that is lost.

- In the mid and late 1990's Ohio was surrounded by 4 states that had lower OTP and Cigarette Taxes. Ohio lost millions of tax dollars. At that time Kentucky, Pennsylvania and West Virginia had no tobacco tax, Indiana had a 7% tax and Michigan was the lone state with a higher OTP and cigarette tax.
- I managed Northern California for Swisher in 2000 right after California passed the new excise tax on OTP to 87%. The market was flooded with tobacco products from all over the country, including FROM Ohio, because of the amount of money that could be made by transshippers.

After the 1994 Master Settlement Agreement between the federal government and tobacco companies, states got more aggressive toward reducing tobacco consumption by using taxation to accomplish that goal. A double-edged sword was unleashed. One edge generated millions in tax dollars for states to spend. The other edge saw unit sales decline, which means the tax revenue declines. So, back to the well to increase taxes, and the double edge sword outcome repeats itself but gets even worse because increasing taxes again and again fueled tax evasion as consumers found other ways to get their tobacco from lower taxed or untaxed sources – that is the unreliable, unsustainable revenue edge of the sword. As a business, I can't just arbitrarily increase my prices to bring in more money. Doing that means I'll lose business to my competitors. The state increasing taxes to meet budget is no different. The state will lose to its competitors, namely to Ohio's border states. What's worse, the state increasing taxes also puts my business and retailers who buy tax paid products from me at a competitive disadvantage.

I urge this committee to fully understand the well-known consequences that will be caused by these proposed tax increases.

Chairman Roemer and committee I truly appreciate the opportunity to present my testimony and hope that you find it helpful during your deliberations.

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