



OHIO WHOLESALE MARKETERS ASSOCIATION

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Sub.HB96 Senate Finance Committee

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Chairman Cirino, Vice Chair Chavez, Ranking Member Hicks-Hudson and members of the Senate Finance Committee, thank you for the opportunity to comment on Sub.HB96, the state operating budget. The Ohio Wholesale Marketers Association's core membership is wholesalers who supply food, nonalcoholic beverages, tobacco category products [ie cigarettes, other tobacco, nicotine, regulated vapor products] and general merchandise to convenience stores and neighborhood markets.

First, OWMA appreciates that the bill does not include statewide tax increases across the category and, for my wholesalers specifically, thank you for preserving their tax collector compensation. The state relies on their investments in cigarette stamping equipment and all other related costs for them to carry out their responsibilities. Thank you for understanding that they provide a valuable tax service at a significant cost to their own businesses.

Because all state and county (*Cuyahoga County*) cigarette excise taxes and other tobacco taxes are paid first at the warehouse level, OWMA has a direct interest in the Sub.HB96 sections that expand taxing of cigarettes to Summit and Hamilton counties to fund arts, and changes in Cuyahoga County's current taxes for major league sports facilities.

Specific to Cuyahoga County, SubHB96 adds other tobacco products, little cigars and vape to products that can be taxed for sports facilities. These products were also briefly included in prior law for the County's arts tax and later removed from that law because they do not have a tax stamp like cigarettes, so there is no reasonable way for the wholesalers and state to coordinate administering a local excise tax. For that same reason, adding the products to the sports facility taxes is a concern.

Regarding expanding taxing authority to other counties, just like there is a well-documented correlation between high state excise tax rates and cross border sales, there is also a correlation between county excise taxes and sales shifting to neighboring counties and/or out of state. The lost sales go beyond cigarettes and include any of the other products the consumer would typically buy at the same time. Retailers in Cuyahoga County know the reality of losing sales across product categories and profits because customers go out of the county to avoid the higher cigarette tax.

Expanding taxing authority to other counties puts more retailers in the state at a tax rate induced competitive disadvantage. Just a few years ago when expanding the cigarette arts tax to other counties was initially talked about, retailers were estimated to lose up to \$195million in tobacco category sales plus \$49 million in sales of other products due to customers changing purchase locations based on the cigarette tax rate.

For wholesalers who sell to retailers in Cuyahoga County, the costs to stamp cigarettes are compounded by the county rate, which increased from 34.5cents to 74.5 cents per pack on February 1st [70 cents to arts and 4.5 cents to major league sports facilities]. Just one roll of tax stamps covering only the state excise tax rate costs the wholesaler \$48,000, and that same roll with the county tax added is \$70,350 (minus the wholesaler stamping compensation for both types of stamps). County taxes add to the cost of financing the needed inventory of stamps and financing accounts receivable as it relates to the stamp (excise tax) portion of the cigarette sale to the retailer. Insurance on the stamps also increases to cover the value of the stamp while they are in transit from the state to the warehouse, and while they are in the warehouse. Then there are the additional costs associated with managing inventory stamping, required reporting and changing product flow in the warehouse to accommodate multiple taxing jurisdictions.

Allowing Summit and Hamilton counties to tax cigarettes compounds the cost and logistic issues for wholesalers who both sell into Cuyahoga County and those counties. It also brings these issues to the forefront for any other wholesalers who also sell into newly authorized counties. There is no good outcome for the wholesaler with a high concentration of retail accounts in counties with local excise taxes. They incur higher costs for excise tax stamps, insurance, operational reconfigurations and administrative changes or they stop supplying retailers in the counties with local taxes, with no guarantee of recovering the lost business elsewhere.

It is worth noting that authorizing Summit and Hamilton counties to tax cigarettes will inevitably be followed with requests from other counties, and what started as 'local voters can decide' will become a revenue issue for the state. An analysis just a few years ago showed that Ohio could lose more than \$30 million annually in state excise tax receipts to cross border and other untaxed sources if cigarette taxing authority expands to other counties. This figure does not include lost state sales taxes on cigarettes.

Chairman Cirino and members of the committee, thank you for your time and consideration.