

Statement to House Finance Committee

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Chairman Smith, Vice-Chair Schuring and committee members, my name is David Newman. My wife, Karie, and I own and operate two tobacco stores with one in Austintown and one in Salem, Ohio. We have two full-time employees and six part-time employees.

I am also a member of the National Association of Tobacco Outlets, a trade association for tobacco stores, that has 80 members in Ohio with each store employing 8 to 10 Ohioans.

I am very concerned about the impact that more increases in the state cigarette and tobacco taxes will have on my family business and my employee's jobs.

The Ohio excise tax was raised to 55 cents a pack in 2002, and then again to \$1.25 per pack in 2005.

The federal tax on cigarettes was raised to \$1.01 per pack in 2009 and President Obama has proposed raising the tax again to \$1.95 per pack.

Now, the Governor wants to raise taxes on cigarettes by an additional \$1.00 per pack for a new rate of \$2.25 per pack and increase the taxes on other tobacco products to 60% of the wholesale price. Moreover, he wants to apply a new tax on the electronic cigarette/vapor category as if they were the same thing as a tobacco product, and they are not. The proposed tax on the e-cigarette/vapor category would make the amount of the tax more the double the current retail price of the product.

One of my major concerns is the reality of cross-border sales. Taxes on cigarettes in Ohio are already higher than those in West Virginia, Kentucky and Indiana. This tax package will take Ohio's cigarette and other tobacco product taxes higher than the taxes in every border state. And we can't ignore that Pennsylvania has no tax on the other tobacco product category.

If taxes are increased by the proposed amount, Ohio residents can save \$17 a carton by driving to West Virginia, \$16.50 a carton by traveling to Kentucky, \$12.55 by going to Indiana, and \$6.50 if they travel to Pennsylvania. Since Pennsylvania has no tax on

other tobacco products like cigars, chewing tobacco and pipe tobacco, the price disadvantage is magnified.

This means that family-owned, law abiding retail businesses will be losing business at 70 miles per hour. Moreover, residents will also turn to the Internet to order tobacco products to avoid paying any state excise taxes or sales taxes. In that scenario, both retailers and the State of Ohio lose.

The state legislature should not adopt tax policies that force residents to travel to other states to save money, penalize hardworking business people and jeopardize our employees' jobs.

Our customers are largely low-income citizens. They are the least able to absorb continuing increases in taxes and price increases. You can only tax products so much before the taxes become self-defeating. People will no longer be able to afford them.

Another major problem resulting from higher taxes is theft. It is a very real concern, and we have been affected personally. We recently moved our Boardman store to Austintown, but before doing so our Boardman store was broken into and more than \$20,000 in cigarettes and tobacco was stolen. The thieves were very sophisticated, cutting off the alarms and telephone lines in the process. As you can imagine, the experience was very traumatic for me, my wife and our employees.

I have no doubt that these stolen products wound up on the black market, substantially reducing sales by law-abiding wholesalers and retailers, costing employees their jobs and the state cigarette and sales tax revenue.

Finally, the Governor wants to tax electronic cigarettes at a rate that is assumed to be equivalent to the cigarette tax. Electronic cigarettes are very different from cigarettes. They are not combustible, and only heat a nicotine liquid solution. Many smokers have transitioned to electronic cigarettes in order to quit smoking altogether. Under the proposed tax rate, one milliliter of liquid containing nicotine that today retails for \$5 would have an added tax of \$11.25. This tax rate will only serve as a disincentive to adults to change to electronic cigarettes or it will drive consumers to order their electronic cigarettes on-line.

For the future of our retail stores and to protect our employees' jobs, I urge you to oppose the Governor's cigarette, tobacco and electronic cigarette tax proposal.

Thank you for this opportunity to testify.