



Ohio Premium Cigar and Pipe Association

410 Walnut Street - Cincinnati, Ohio 45202

www.ohiocigar.org | www.facebook.com/ohiocigar

Chairman Smith, and members of the House Finance Committee, thank you for the opportunity to testify before you.

My name is Jim Clark and I am the president of the Ohio Premium Cigar and Pipe Association. I am also the owner of Straus Tobacconist, the 4th oldest premium cigar store in the nation, located in Cincinnati, Ohio.

OPCPA Background Information:

The Ohio Premium Cigar & Pipe Association, or OPCPA for short, is a non-profit trade association organized as the advocate for the independent premium retail tobacconists in Ohio.

OPCPA represents retail stores in all regions of the state of Ohio that sell premium cigar and pipe tobacco products.

We are the “mom & pop” retail stores. Many of OPCPA members’ businesses are family-owned, spanning several generations.

Our members frequently contribute to their local communities and actively participate in civic, commerce, and charitable associations.

On a National and state level, here are a few quick facts about the premium cigar and pipe tobacco retailers industry:

- There are premium cigar shops in every state and approximately 5 in every congressional district in America.
- On average, each store employs 5 full and part-time employees.
- More than two-thirds of these shops offer health insurance and other benefits, and have a full-time manager with an average salary of approx. \$40,000 per year.
- There are more than 85,000 American jobs directly tied to the premium tobacco industry.

In short, **we are the premium cigar retail industry** - not to be confused with your basic, mass produced, machine rolled cigars that are sold in drug stores, and other retail locations.

Premium Cigars:

Premium cigars are different from most tobacco products. Premium cigars are handcrafted artisanal products, made with 100 percent tobacco.

These cigars continue to be made by hand as they have been for several hundred years.

We are not the same as mass-produced, machine-made cigars, nor are we cigarettes.

How Premium Cigars Are Different – Sales Dynamics and Taxes:

Just like the products themselves, **the sales dynamics for premium cigars** are different too.

In premium tobacco retail stores, 75-100% of the product in our stores is just premium cigars.

Whatever sales are lost due to increased tobacco costs, directly affect a cigar store.

In other stores, whatever sales are lost due to increased tobacco costs, will not affect a more diverse retailer who sells other items.

To summarize - when the cost or taxes of the cigar go up and sales decline, premium cigar stores cannot make up the lost revenue off of other items like candy, beer or food in our stores.

Another sales dynamic relevant to premium cigars is that there are no age restrictions on entering most retailers. But, you must be 18 to enter a tobacco shop. Our customer base is already naturally smaller.

We cater to our customers and their desires, even going so far as to hand select items specifically for some individual customers, much like a jeweler or clothier operates.

Our customers are diverse. Cigars are not for a certain class of people. On the contrary, we cater to customers from all walks of life.

Competition Problem:

Another dynamic that is very important to point out is that it is currently illegal to ship cigarettes across state lines. However, **it is not illegal to ship cigars across state lines.**

Large internet-based cigar outlets are located **in states where there is no premium cigar tax.**

Products are shipped into Ohio with no excise taxes - OTP or sales tax - direct to consumers.

If you raise the cost or taxes on cigars, **consumers will definitely do the simple math and purchase all their cigars online and out of state.**

As OTP taxes increase, Ohio-based sales will decrease, cigar and pipe tobacco retailers will have to close their businesses, and jobs will most certainly be lost.

Real Example Comparing Ohio Store Purchase vs. Legal Internet Purchase:

Here is a simple case-study showcasing how it is **easier (and cheaper) to do business outside of Ohio** due to OTP taxes.

I urge you to now to please look at this table below to compare costs.

These figures are based on the sale of the Romeo and Julieta 1875 Churchill that is hand made in the Dominican Republic by the world's largest premium cigar manufacturer, Altadis, USA.

ROMEO Y JULIETA 1875 CHURCHILL - Manufacturer's list price for a box of 25 cigars is \$107.25

Purchase Comparisons	CURRENT	PROPOSED	ONLINE
Add Ohio OTP Tax	\$18.23	\$64.35	\$0.00
Add Freight Charged - Altadis	\$3.22	\$3.22	\$0.00
Total Cost for Ohio Retailer	\$128.70	\$174.82	n/a
Our Store's Sale Price	\$194.63	\$270.00	n/a
Add Sales Tax	\$11.19	\$16.88	\$0.00
Total Price Paid by Consumer	<u>\$205.82</u>	<u>\$288.88</u>	<u>\$125.67</u>

As you can see, the OTP tax increase would add **over \$80 to just this single purchase**. More troubling than this is the comparison to businesses outside of Ohio and online.

If a consumer who wants to purchase the same box of cigars as shown in the table above, the consumer can go online to an out-of-state supplier who will ship the product to their door.

The total cost to purchase from an online outlet is \$119.68 + \$5.99 shipping for a total of \$126.67.

This is a perfect example of how it will be close to **60% cheaper to do business outside of Ohio**. And from the consumer's point of view, it is obvious to choose to take their business out of Ohio.

The current cost to the state in lost revenue is almost \$30 on this transaction alone (\$18.23 in OTP and over \$11 in lost sales tax - depending on the retailer markup).

An increase in the OTP will push more and more brick and mortar consumers to the out-of-state or online suppliers. Going forward, Ohio will not see rising OTP revenues - the state and will struggle to maintain the current levels of collection.

For reference, I've enclosed a copy of the receipt from a recent purchase I made online to verify these numbers, and I've included a receipt from my shop showing the sale of the same item.

See Attachments A & B.

Bottom Line:

If the OTP tax is increased, you will see small business cigar stores close for good.

Businesses and jobs will be lost from Cleveland to Findlay to Dayton to Cincinnati to Akron to Youngstown.

The Ohio Premium Cigar and Pipe Association **urges you to NOT increase OTP taxes.**

If you raise the OTP tax, then no small business tax cut of any kind will ever matter, because our businesses won't be open any longer.

The premium cigar retailers in Ohio will eventually not be able to compete with the out-of-state or online outlets. It will be far more advantageous for any customer to take their business out of the state.

And, please be assured, we are not complaining about cigars becoming more expensive – not at all.

We are simply stating that if OTP taxes are increased, three things will definitely happen:

- 1. Small independent businesses will close**
- 2. Jobs will be lost in each of your districts**
- 3. People will still smoke cigars, but they will simply buy them online and outside of the state of Ohio**

Please do not allow the OTP tax to increase. Please help our small businesses.

Thank you again for allowing me to testify.

I am happy to try to answer any questions you may have.

ATTACHMENTS A & B are on the following pages.

ATTACHMENT A – Receipt of Purchase from an Ohio Premium Cigar Retailer

Straus Tobacconist - Cincinnati
410 Walnut St.
Cincinnati, OH 45202
(513) 621-3388

Ticket #10011311 User: JCLARK
2/4/15, 9:00:53 AM EST

Item Description	Qty	Price	Total
RyJ Churchill	25	8.65	216.25
Romeo y Julieta Churchill			
Discount (10% OFF) [10%]			-21.62
Subtotal			194.63
Tax			13.14
Total			207.77
Tender:			
CASH			207.77

Number of line items purchased: 1

Total discount - You saved \$21.62



* 1 5 8 2 0 4 1 0 0 1 1 3 1 1 *



ATTACHMENT B – Receipt of the Same Purchase from an Online/Out-of-State Retailer

From: Customer Service CigarsInternational.com <customerservice@cigarsinternational.com>
To: jcigar1955 <jcigar1955@aol.com>
Subject: Cigars International - Confirmation #CI007016839
Date: Tue, Feb 3, 2015 7:12 pm



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Greetings **JIM CLARK**,

Thank you for shopping at Cigars International — your cigar home for the best deals, largest selection, and lowest prices on the planet.

Order Confirmation: **CI007016839**

February 03, 2015

Bill To:

JIM CLARK
410 walnut St
CINCINNATI, OH 45202
(513) 702-1947

Ship To:

JIM CLARK
410 walnut St
CINCINNATI, OH 45202
(513) 702-1947

Shipping Method:

CI Saver Shipping

Estimated delivery date for **in-stock** items
is 2-8 Business Days.
Order Status

Item Description	In Stock	Price	Qty	Total
Romeo y Julieta 1875 Churchill + Colibri Lighter BOX OF 25 Item # CB-ROA7050-U	In Stock	\$119.68	1	\$119.68

Notes:

- Log in to track your order online.
- Contact us via the Customer Service Request Form or call us toll-free at **1-888-244-2790**.
- Customer Service Hours:
 - Monday through Friday, 8am to 10pm ET
 - Saturday, 9am to 8pm ET
 - Sunday, 9am to 5pm ET
- All orders may be subject to authorization.
- Remittance of any taxes on orders shipped outside of Pennsylvania is the responsibility of the purchaser.
- **Any order changes/additions/cancellations can only be requested through telephone contact with our Customer Service Department no later than 8:00PM ET. Customer Service can be reached at 1-888-244-2790.**

Sub-Total \$119.68
CI Saver Shipping \$5.99
Sales Tax \$0.00
Order Total \$125.67