

House Finance Committee

Ohio Legislature

Columbus, OH

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Hearing on OH HB 64
A bill to increase the tax on tobacco products.

Prepared Testimony By:
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Good morning ladies and gentlemen of the Ohio House Finance Committee. My name is Rich Marianos, and I am senior law enforcement consultant for RAI Services Company.

Let me start by telling you a little about my background. I retired from a 27-year career at the Bureau of Alcohol, Tobacco, Firearms and Explosives as Assistant Director. During my ATF career, I conducted, supervised and oversaw investigations into organized crime, counterterrorism, drug trafficking organizations and violent crime.

My ATF experience also includes the position of Special Agent in Charge of the Washington Field Division, and Deputy Chief of ATF's Special Operations Division.

In addition to my consultation duties for Reynolds, I am also an Adjunct Professor at The George Washington University in Washington DC, where I teach courses in Political Violence and Terrorism. Let me state that if you cannot tell by my background, crime prevention and security are things that I take very seriously..13

As you know, HB 64 would increase the cigarette excise tax by \$1, bringing the state's tax rate up to \$2.25 per pack. This would make Ohio's cigarette excise tax one of the highest in the nation, several times higher than similar taxes in the bordering states of West Virginia (55¢/pack), Kentucky (60¢/pack) and Indiana (99.5¢/pack). It would also be considerably higher than the tax in Pennsylvania (\$1.60), making it easy to see why smugglers will find selling their illicit cigarettes in Ohio so attractive.

These disparities provide huge profit opportunities for criminals. For example, a van smuggling 50 cases of cigarettes (3,000 cartons) from Wheeling, West Virginia, to Columbus, Ohio would have gross profits in excess of \$50,000. The gross profits from a U-Haul on the same route can be 4-times that amount.

Let me give you some background on exactly what the Ohio cigarette market looks like. Tax-paid sales data suggest that after the 2005 Ohio cigarette tax increase from \$0.55/pack up to \$1.25/pack, cigarette volume dropped 21 percent across the state. Over the same period, nearly all of Ohio's bordering states (with the exception of Michigan and Pennsylvania) saw double-digit percentage growth

in cigarette sales in the counties that border Ohio. Ohio per-capita cigarette sales declined 18.5 packs while West Virginia per-capita sales increased 9.8 packs and Indiana's increased 2.6. It is clear that Ohio's bordering states benefited from the cigarette tax increase of 2005 and that benefit likely still exists today. An Ohio cigarette excise tax increase of this magnitude will only exacerbate the problem.

[A Mackinac Center for Public Policy study](#) based on 2013 data estimates that roughly 7.05 percent of the cigarettes bought in Ohio are potentially being exported to other states. **However, this would quickly change if the tax increase is approved.** One statistical model estimates that smuggling rates in Ohio will increase 210 percent and go from 27th to 14th in the nation for contraband cigarette trafficking.

With the influx of commercially smuggled cigarettes from nefarious entities comes an increase in violent crime. Those who participate in large-scale cigarette smuggling are often involved with other forms of illicit activity involving drugs, guns and even human trafficking. Last year, the state of Rhode Island realized that the movement of illicit cigarettes into their state has resulted in an increase in violent criminals traveling to the state to sell illicit product from Virginia and other lower-tax jurisdictions. Rhode Island lawmakers have taken a firm stand against cigarette smuggling in an effort to thwart the surge in violent criminals entering the state. Ohio should learn from Rhode Island's experience and make sure addressing cigarette smuggling is a priority for the state.

And let me be clear, those who smuggle cigarettes from other states do not age-verify those purchasing their illicit product. This could place Ohio's youth in a precarious position and could jeopardize the efforts to date to prevent Ohio youth from smoking.

I strongly urge the committee to study what is occurring with regard to cross-border cigarette sales among states with differing tax rates, enforcement and the operational needs of the distribution community.

I urge the members of this committee, and the legislature as a whole, to consider the unintended consequences that a cigarette tax increase will have on cigarette smuggling and other illicit activities.