

**Written Testimony by McLane Company, Inc. in Opposition to Proposed Tobacco Tax Increases and Floor Stock Tax Provisions in Executive, as introduced version of H.B. 49**

**Senate Finance Committee**

**June 7, 2017**

Chairman Oelslager, Vice Chair Manning, and Ranking Member Skindell, thank you for the opportunity to provide written testimony to the Senate Finance Committee. McLane Company, Inc. is one of the largest wholesale distributors of consumer and food products with operations across the United States, including McLane Grocery Distribution, Inc. located here in Findlay, Ohio. This \$150 million facility will employ approximately 400-500 teammates in Ohio. Of McLane's 80 distribution centers nationwide, the Findlay facility is the most technologically advanced and autonomous operation.

We chose this location after careful consideration of other sites in Indiana and Michigan, and in no small part, because of Ohio's business friendly climate. When McLane chooses a location, we believe in becoming a fully integrated partner in the community. In Findlay, McLane has partnered with a local community college to develop and fund a driving program in which local students and McLane teammates may participate.

Since choosing to locate in Ohio, however, we have been disappointed by several ongoing budget-related items that will negatively impact our business through increased taxes. Because of the variety of products we distribute for sale, McLane is typically one of the state's largest excise taxpayers. In 2016, in Ohio alone McLane paid about \$65 million dollars in tobacco excises taxes. In a distribution market place where revenue and expenses are measured in fractions of percent, small tax increases have a significant impact on our business.

All the proposed tobacco tax measures in the Executive, as introduced version of H.B. 49, contain burdensome language to impose a floor stock tax on the cigarette inventory of a dealer (retailer) and wholesaler/distributors. The language in the legislation includes a tax on affixed and unaffixed cigarette tax stamp inventory of a licensed distributor on July 1, 2017.

Distributors and retailers are adversely affected by the imposition of the floor stock tax and we oppose any measure that places an undue burden on the distribution community. We appreciate the House's removal of these costly tobacco taxes and respectfully request the Senate to maintain the House's changes.

Excise tax increases elevate McLane's costs associated with the cigarette distribution operation. These increased costs are only exacerbated by the additional imposition of the tax on our inventory already in the stream of commerce. Retailers buy stock on credit term and the excise tax increase that would be imposed on the floor stock would have a corresponding effect on the risk of delinquency and non-payment by those retailers on cigarettes. When faced with this bad debt issue, McLane Company has no means of recourse to recover the additional tax that has already been remitted to the State.

In essence, the distributor is the sole entity that carries the burden of the tax and the additional floor stock tax only manages to compound these costs and risks.

Additionally, costs that we must plan for include increased compliance costs such as record keeping and inventory requirements for the floor stock during the transition to the new rate. Also, keeping in mind the additional reporting requirements administered by the taxing authority. The additional labor costs associated with the physical process of inventory tracking alone is a burden not included in budgeting.

Imposing the excise tax increase on floor stock inventory creates practical management problems, increases compliance costs and subjects our company to significant risks and exposure.

Thus, to assist us in the reorganization of business operations in lieu of the increased taxes we ask that the floor stock provisions be removed or some form of transition relief be considered. We also ask that the Senate Finance Committee prevent any potential amendment regarding changes in the trade discount/fair trade statutes from entering H.B. 49.

Respectfully submitted by:  
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