

TESTIMONY By: Diana O'Donoghue, Executive Director
Submitted By: Patrick McCabe on Behalf of NECSA
Connecticut Chapter, New England Convenience Store Association

To: Finance, Revenue and Bonding Committee
February 23, 2008

RE: Testimony Relative to SB 930; AN ACT CONCERNING THE CIGARETTE TAX, THE TOBACCO PRODUCTS TAX AND THE ALCOHOLIC BEVERAGES TAX.

Co-Chairs Daily and Staples, members of the Committee, thank you for the opportunity to submit **testimony on behalf of the Connecticut Chapter of the New England Convenience Store Association (NECSA)**. We represent convenience stores across Connecticut. NECSA's membership consists of independent, family owned convenience stores, independently owned franchise stores as well as chain-operated convenience stores.

Thank you for allowing NECSA to submit our written testimony in opposition to SB 930 and allowing our members to testify today. SB 930 is a bill that would increase the cigarette excise tax by 50-cents per pack.

Our members wish to be recorded in opposition to this significant cigarette tax increase and we ask you to vote against this bill for many reasons. This bill would increase the current cigarette tax from \$2.00 per pack to \$2.50 per pack.

Connecticut has raised the cigarette tax three times in the last seven and a half years with the most recent 50-cent increase in July of 2007. Another tax increase on cigarettes will undoubtedly impact sales negatively in Connecticut. It's a serious concern for our membership because **increasing Connecticut's cigarette excise tax will drive away cigarette sales and related purchases as it collapses and reverses the current competitive edge that Connecticut retailers have over neighboring states.**

Customers who now travel from the Massachusetts and Rhode Island borders because of the cost savings would no longer have an incentive to purchase cigarettes in Connecticut. And New Yorkers would have less incentive. In fact, Connecticut customers near the RI border would pay less in taxes if they made cigarette purchases in RI where the tax is \$2.46.

How important are cigarette sales to your local convenience store's business? According to a National Association of Convenience Store's

(NACS) recent industry reports, cigarette sales constitute the top in-store sale category and account for approximately 33% of all in-store sales at convenience stores nationwide. **In Connecticut, cigarette sales in convenience stores are higher than the national average with some estimates at 46 to 56 percent of in-store sales.** A Connecticut cigarette tax hike would simply imperil your local convenience store's competitive edge and viability.

Cigarette sales volume is very sensitive to state tax hikes. In April 2002, when this state raised the cigarette tax by 61-cents to \$1.11, tax paid cigarette sales dropped by almost 10%. Then in 2003 when the tax was hiked again, the drop was approximately 14%. Since 2007's increase by 50-cents there was approximately a 6% drop. This shows how sensitive Connecticut's retail edge is to tax increases.

Our members realize that increasing tobacco taxes has become quite popular with many legislators and the public. However, what most people do not understand is that the tax increase places an onerous burden on hardworking men and women who are our customers as well as on our members' businesses.

Convenience store customers also purchase gasoline, coffee and other beverages, and food. Therefore, if the cigarette tax is increased, then overall related sales will suffer along with our tobacco sales and ultimately the state's tax revenue from these other sources will suffer too.

Additionally, the cigarette revenues are a declining revenue source and are not sustainable. **According to the Center For Disease Control, the annual rate of decline in actual smokers is now 4 percent a year.** Funding any state program with a declining revenue source like a tobacco tax guarantees that more taxes will be needed later.

Another consideration is that the federal government recently passed a law to raise the federal cigarette tax by .62 cents per pack or approximately \$6.20 per carton by April 1, 2009, to fund expansion of the SCHIP program. That increase will negatively impact cigarette sales and attached to this testimony are the federal tobacco tax increases listed for you. Smoking will become unaffordable for some current smokers. Fewer cigarette sales will lead to less state revenues for cigarettes and other products.

The proposed cigarette tax increase if passed will cause jobs to be lost. Retailers' and wholesalers' jobs will likely be displaced due to the tax

increase based upon profit loss estimates for their businesses. This statement is not made lightly.

And cigarette tax hikes cause customers to turn to lower cost alternatives including purchasing cigarettes at Native American Reservations, through the Internet or through illegal contraband networks to avoid a state's tobacco tax. In January 2009, New York's Governor's office has reported that New York is not stopping untaxed cigarette shipments to the Seneca Nation. Consumers may simply go to an Internet website, pay by money order and have cigarettes delivered by the U.S. postal service. How will taxes be collected from those individuals? The proposed cigarette tax increase will drive more of those sales.

There are other aspects of SB 930 that concern Connecticut convenience store operators including the proposed floor tax on cigarettes, the 10-cent per ounce tax increase on snuff and the plethora of alcohol tax increases proposed to be collected from distributors. These increases will likely be passed on ultimately to customers who are already facing economically challenging times.

Many convenience storeowners are managing their stores and could not be here today. However, some NECSA members are here to testify before you about the direct negative impact that this proposed cigarette tax increase would have on their stores. Based upon the negative impacts we've described, NECSA members respectfully ask you to oppose passing the cigarette tax increase.

Thank you for your consideration of our concerns.

NATO E-News

An E-News Update of the National Association of Tobacco Outlets

February 4, 2009

House Passes Senate SCHIP Bill; President to Sign Bill Today

This afternoon, the U.S. House passed by a margin of 290 to 135 the U.S. Senate version of the bill to expand the State Children's Health Insurance Program (SCHIP). The U.S. House had the option of either accepting the Senate bill language or proceeding to a joint House-Senate Conference Committee to work out the differences between the two bills. By accepting the Senate version of the bill, the House was able to more quickly pass the legislation and send it to the president for his signature. A copy of the final roll call vote in the U.S. House today is attached.

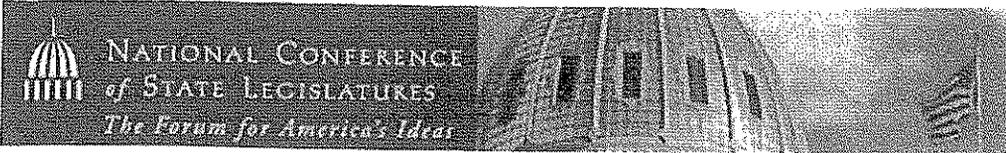
President Obama has scheduled a signing ceremony later today to sign the SCHIP expansion bill into law. Below are the final tax rates on cigarettes and tobacco products that will go into effect on April 1, 2009:

SCHIP Cigarette and Tobacco Tax Rates

Product	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rates on April 1, 2009
Cigarettes	39¢ per pack	\$1.0066 per pack
Large Cigars	20.719% of manufacturer's price; cap of 4.875¢/cigar	52.75% of manufacturer's price; cap of 40.26 cents per cigar
Little Cigars	4¢ per pack	\$1.0066 per pack
Pipe Tobacco	\$1.0969 per pound	\$2.8311 per pound
Chewing Tobacco	19.5¢ per pound	50.33¢ per pound
Snuff	58.5¢ per pound	\$1.51 per pound
RYO; Cigar Wrappers	\$1.0969 per pound	\$24.78 per pound
Cigarette Paper	1.22¢ per 50 papers	3.15¢ per 50 papers
Cigarette Tubes	2.44¢ per 50 tubes	6.30¢ per 50 tubes

With these new federal tax rates going into effect on April 1, 2009, the SCHIP law also requires that retailers, wholesalers and manufacturers pay a floor stocks tax on cigarettes and all other tobacco products (except large cigars) held in inventory at 12:01 A.M. on April 1, 2009. The floor stock tax equals the difference between the new 2009 tax rates listed in the chart above and the current tax rates on each different category of tobacco product, except for large cigars. Forms and instructions for calculating and paying the floor stocks tax are to be compiled by the Treasury Department.

Each retailer, wholesaler and manufacturer will receive a \$500 credit toward the floor stocks tax. However, this is a \$500 credit per retail company or wholesale company and *not* a \$500 credit per store or warehouse. The floor stocks tax is due and payable to the U.S. Treasury on or before August 1, 2009. When NATO obtains additional information about the floor stocks tax, that information will be sent to members.



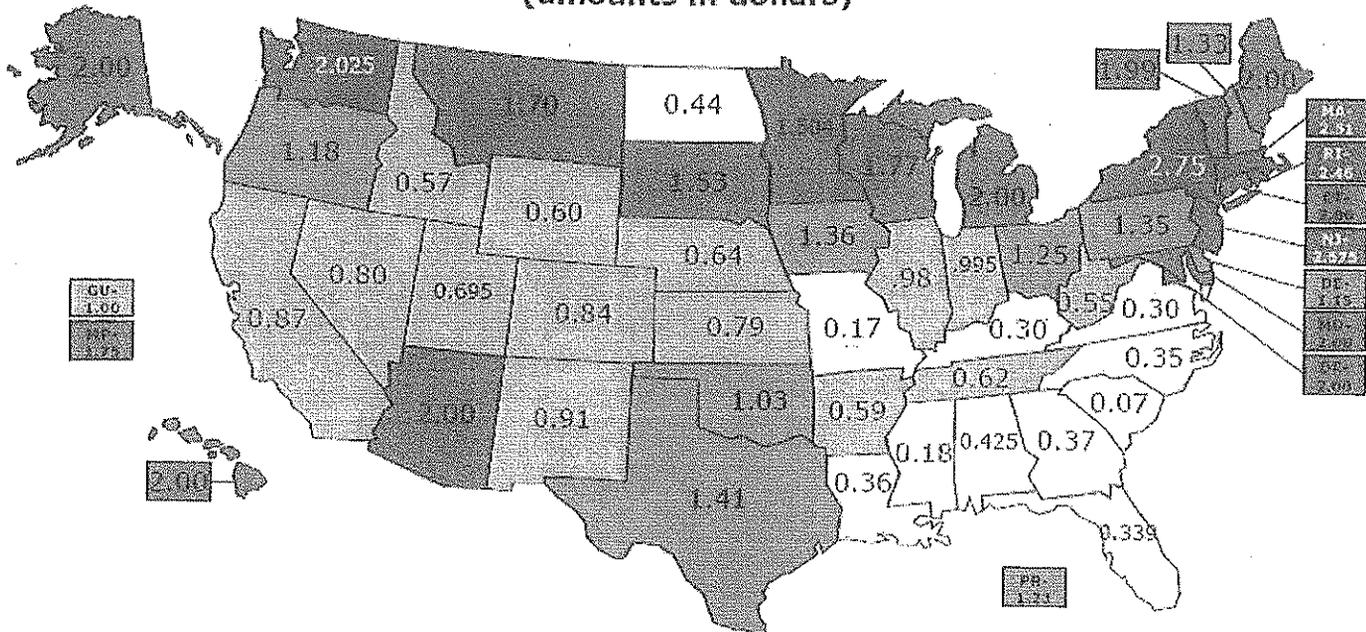
State Cigarette Excise Taxes: 2009 NEW

Updated January 2009

Cigarette Excise Tax Rates (in \$) by Tax Rate	Cigarette Excise Tax Rates (in \$) by State Name
Cigarette Excise Tax Facts	State Tax Legislation & Rate Changes, 2007-08
2009 Proposed State Tobacco Tax Increase Legislation <small>NEW</small>	
2007 State Cigarette Excise Tax Rates	2006 State Cigarette Excise Tax Rates

NEW The federal cigarette excise tax will increase to \$1.00 on April 1, 2009 as part of the State Children's Health Insurance Plan (SCHIP) bill that was signed into law by President Obama on February 4, 2009.

State Cigarette Excise Tax Rates
January 2009
 (amounts in dollars)



- Greater than \$2.00
- \$1.501-\$2.00
- \$1.001-\$1.50
- \$.501-\$1.00
- Less than \$0.50

Sources: American Lung Association and Federation of Tax Administrators