

TESTIMONY
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RAI SERVICES COMPANY

Committee on Finance, Revenue and Bonding
Bill Number SB 437
MARCH 15, 2010

Sen. Daily, Rep. Staples and members of the Finance, Revenue and Bonding Committee, as management representatives of RAI Services, a subsidiary of Reynolds American Inc, we are pleased to be here today. We will address legislation that would equalize the tax rate between packaged cigarettes and loose tobacco sold for pipes and roll-your-own cigarettes.

As a result of the recent tax increase on cigarettes to \$3 per pack, many Connecticut smokers have switched to less taxed alternatives, such as roll-your-own cigarettes. This is clearly apparent when you walk into your local markets and see the displays.

The state of Connecticut stands to gain more than \$4 million in additional annual revenue by closing a loophole that results in roll-your-own and pipe tobacco being sold at a significant price reduction to cigarettes.

This loophole was opened last year when the United States Congress raised the federal excise tax on roll-your-own tobacco to \$24.78 per pound and on pipe tobacco to \$2.38 per pound. Previously, both of these products were at taxed at \$1.10 per pound.

While Congress raised the excise tax on these tobacco products, it did not tighten the way they are defined. As a result, some sellers of roll-your-own tobacco for cigarettes have begun to re-label this product as pipe tobacco, which is taxed at the much lower federal tax rate.

Nationwide, this has led to a 55 percent drop in the sale of roll-your-own tobacco and an increase of 78 percent in the sale of pipe tobacco within six months of the federal tax increase.

This matter has added urgency for your state because cigarette sales volume has steadily declined since the tax increase of 2007 as adult tobacco users seek cheaper alternatives. The state exacerbated this situation in 2009 when legislators increased the cigarette tax by \$1.00 a pack, from \$2.00 per pack to \$3.00 per pack. As a result volume is down 12.5 percent, making it unlikely that revenue projections will be met.

Connecticut can close this loophole and gain additional tax revenue merely by defining all roll-your-own and pipe tobacco as non-cigarette smoking tobacco.

Some additional background on this issue will now be shared by Greg Osmon, my colleague at RAI Services.

GREG OSMON, SENIOR MANAGER, LEGISLATIVE POLICY AND ADVOCACY
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Sen. Daily, Rep. Staples and members of the Finance, Revenue and Bonding Committee, Connecticut's current roll-your-own tobacco tax rate is 27.5% of the wholesale price.

If Connecticut were to equalize the tax rate on roll-your-own and pipe tobacco to the current state cigarette excise tax rate of \$3.00 per pack (or 15 cents per cigarette), the state could generate approximately \$5.9 million in revenue.

To equalize the rate, Connecticut would need to tax roll-your-own and pipe tobacco at a rate of \$4.62 per ounce.

The federal government and the Master Settlement Agreement (MSA) of 1998, an agreement between 46 states and the tobacco industry, calculate the weight of one cigarette at 0.0325 ounces. Using the federal government's and the MSA's assumption, the total number of Connecticut's roll-your-own and pipe equivalent cigarettes for 2008 would be about 53.8 million.

Applying the MSA conversion, the total estimated revenue would be \$5.9 million. Using the federal government/MSA conversion rate would potentially increase Connecticut's revenue \$4 million each year.

This concludes our prepared testimony. We would now be pleased to answer any questions.

Tobacco Tax Changes after Federal Excise Tax Increase

Tobacco Product(s)	Per Thousand		Per Pack of 20			
	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rate April, 1 2009	% Increase	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rate April, 1 2009	% Increase
Small Cigarettes (<3 lbs./thousand)	\$19.5000	\$50.33	158%	\$0.39000	\$1.0066	158%
Large Cigarettes (>3 lbs./thousand)	\$40.9500	\$105.69	158%	\$0.81900	\$2.1138	158%
Small Cigars (<3 lbs./thousand)	\$1.8280	\$50.33	2653%	\$0.03656	\$1.0066	2653%

Tobacco Product(s)	Per Pound		Per Ounce (1 lb. = 16 oz.)			
	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rate April, 1 2009	% Increase	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rate April, 1 2009	% Increase
Pipe Tobacco	\$1.0969	\$2.8311	158%	\$0.0686	\$0.1769	158%
Chewing Tobacco	\$0.1950	\$0.5033	158%	\$0.0122	\$0.0315	158%
Snuff	\$0.5850	\$1.5100	158%	\$0.0366	\$0.0944	158%
Roll-your-own Tobacco	\$1.0969	\$24.7800	2159%	\$0.0686	\$1.5488	2159%

Tobacco Product(s)	Minimum - % of price for which sold		Maximum - per cigar			
	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rate April, 1 2009	Increase	Current Rates Through March 31, 2009	Cigarette and Tobacco Tax Rate April, 1 2009	% Increase
Large Cigars (>3 lbs./thousand)	20.719%	52.750%	32.031%	\$0.04875	\$0.4026	726%