



February 3, 2012

Dear Hawai'i Legislators

You might not be aware that Hawai'i's tobacco tax laws are putting local businesses that produce and market high-quality premium cigars at a competitive disadvantage. This is no small sector of Hawai'i's economy; it includes small farms, mom-and-pop cigar shops and major Island retailers like Foodland, ABC Stores and Martin & MacArthur.

Under current law, small cigars are taxed at a flat \$.16 apiece. Large cigars, however, are taxed at 50 percent of their wholesale price—nearly ten times the tax levied on small cigars. There is no rationale for this disparity, because the volume of tobacco in a large cigar typically equals that of only two to five small cigars.

This disproportionate tax puts at a disadvantage the state's only commercial tobacco grower: a Kaua'i farm that produces superior, handmade cigars. Because the farm offers its workers higher-than-minimum wages and provides benefits, production costs are higher. These costs must be passed on to the retailer in the form of higher wholesale prices, which are taxed at 50 percent—much more than the 50 percent of lower wholesale prices of cigars produced outside of Hawai'i, particularly in the Third World. The 50 percent tax makes it difficult for local business to compete with Third-World producers and Hawai'i wholesalers importing cheaper, machine-made large cigars and which pay a fraction of what local handmade premium large cigar sellers must.

The situation is made worse by poor enforcement. No reporting of large cigar imports to the Attorney General's Tobacco Enforcement Division occurs, and the State Department of Revenue does not enforce cigar taxes. It is also common knowledge that few if any Hawai'i consumers file M19 usage taxes for cigars shipped into the state from unlicensed retailers outside Hawai'i.

On behalf of those that produce premium, handmade cigars in Hawai'i and the ninety-six stores that sell them, we urge you this legislative session to amend SB233 to establish a tax cap or a flat rate tax of \$.50 on premium large cigars. This change would lighten the unfair and unnecessary tax burden, raise revenue for the state and level the playing field for small local businesses.

Mahalo nui loa for your consideration,
Hawaii Cigar Association Membership

For More Information on the Hawaii Cigar Association please visit

hawaiicigarassociation.org



Sister States with High Tobacco Tax Rates, but with a Tax Cap on Large Cigars

OREGON LAW- TOBACCO TAXES (CIGARS)

323.505 Tax imposed on distribution; rate. (1) A tax is hereby imposed upon the distribution of all tobacco products in this state. The tax imposed by this section is intended to be a direct tax on the consumer, for which payment upon distribution is required to achieve convenience and facility in the collection and administration of the tax. The tax shall be imposed on a distributor at the time the distributor distributes tobacco products.

(2) The tax imposed under this section shall be imposed at the rate of:

(a) **Sixty-five percent** of the wholesale sales price of cigars, **but not to exceed 50 cents per cigar;**

(b) One dollar and seventy-eight cents per ounce based on the net weight determined by the manufacturer, in the case of moist snuff, except that the minimum tax under this paragraph is \$2.14 per retail container; or

(c) Sixty-five percent of the wholesale sales price of all tobacco products that are not cigars or moist snuff.

WASHINGTON LAW- TOBACCO TAXES (CIGARS)

RCW 82.26.020

Tax imposed — Deposited into the general fund.

(1) There is levied and collected a tax upon the sale, handling, or distribution of all tobacco products in this state at the following rate:

(a) For cigars except little cigars, **ninety-five percent** of the taxable sales price of cigars, **not to exceed sixty-five cents per cigar;**

(b) For all tobacco products except those covered under separate provisions of this subsection, ninety-five percent of the taxable sales price;

(c) For moist snuff, as established in this subsection (1)(c) and computed on the net weight listed by the manufacturer:

(d) For little cigars, an amount per cigar equal to the cigarette tax under chapter 82.24 RCW.

For More Information on the Hawaii Cigar Association please visit

hawaiicigarassociation.org



Petition for Support of a Tax Cap, or Flat Rate Tax on Large Cigars by Amending SB233

Dear Hawai'i Legislators:

We encourage you to amend SB233 and place a tax cap or flat rate tax of \$.50 on premium large cigars in order to:

- Protect businesses and jobs that support the sale of not only locally grown cigars but also premium, handmade cigars. The current 50 percent unlimited tax negatively impacts our economy.
- Create fairness and help Hawai'i cigar retailers who pay their taxes, compete with mail-order businesses that sell cigars within Hawai'i without paying taxes and whose customers do not file usage taxes.
- Protect a local agricultural industry that pays higher tobacco taxes as a result of higher production costs.
- Support and protect tax revenue generated from the sale of large cigars in Hawai'i.

Respectfully Submitted,

Signature: _____ Date: _____

Print name: _____

Business Name (if applicable): _____

Add personal comments here, or attach additional testimony:

Please leave this petition with retailer for collection, or fax to: 808-822-9731

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hawaiicigarassociation.org