

SB 38

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 38, S.D. 1

March 2, 2009

RELATING TO TAX ON TOBACCO PRODUCTS OTHER THAN CIGARETTES

Senate Bill No. 38, S.D. 1, increases the tobacco tax on tobacco products other than cigarettes from 40% to 60% of the wholesale price and deposits 33.3% of the proceeds collected into the community health centers special fund.

As a matter of general policy, we are opposed to the practice of revenue earmarking for specific purposes. This arrangement will, in effect, remove any proposed funding increases from the customary established budgetary process whereby all requests for funding must be justified and compete for limited public resources.

The Department of Taxation estimates this measure would result in a revenue gain of \$1.2 million in Fiscal Year 2010 and then \$1.75 million annually thereafter for the special fund.

February 27, 2009

TO: Chair Donna Mercado Kim and Members of the Committee on Ways and Means

FROM: Cigar Association of America, Inc.
(William L. Goo)

RE: **SB 38, SD1** - Relating to Tax on Tobacco Products Other Than Cigarettes

Hearing Date: Monday, March 2, 2009 at 9:30 a.m.

My name is William Goo. I represent Cigar Association of America, Inc. (CAA).

CAA respectfully opposes passage of **SB 38, SD1** for the following reasons:

Other tobacco product (OTP) users are already taxed at a high rate (40%) and will be required to pay even more to purchase tobacco products as a result of the passage of the SCHIP bill by Congress. The SCHIP legislation increases the tax on large cigars from approximately 21% with a cap of \$.05 per cigar to approximately 53% with a cap of \$.40 per cigar and on little cigars from \$.37 a pack to a little over \$1.00 a pack. The Hawaii excise tax rate of 40% on OTP is based on the wholesale price of a tobacco product. Inclusive in the wholesale price is the federal tax. Hawaii's excise tax is an ad valorem tax, and an increase in the base price of the product would automatically result in an increase in the tax amount and additional revenue. Notwithstanding the fact that the 40% tax rate has been in effect since 1965, the revenue generated by the tax has increased over the years as the wholesale price of a tobacco product increased.

Increasing the amount of the tax would not necessarily deter the use of other tobacco products. OTP users have the option of resorting to less expensive means to purchase tobacco products which may result in a decrease in tax revenue notwithstanding any rate increase.

It is respectfully requested that the Committee hold this measure. Thank you for allowing me to comment.