



February 18, 2015

Testimony in Opposition to HB 2306 – Increase in Alcohol and Tobacco Taxes

Mr. Chairman and members of the Committee:

On behalf of thousands of Americans for Prosperity members across Kansas, thank you for this opportunity to voice our opposition to HB 2306.

All taxes limit prosperity, but not all taxes are equal. Excise taxes single out specific products for excessive taxation, substituting coercive state power for free market pricing. Taxes on alcohol and tobacco, such as this bill, hit the lower income groups the hardest. A recent Tax Foundation study that the burden of the existing federal cigarette excise tax is 7.5 times greater on the bottom income quintile than on the top.

Although proponents claim alcohol and tobacco taxes effectively discourage “harmful” behavior, they actually create a reverse incentive as government becomes reliant on these behaviors for revenue. It is bad public policy to stake programs on an uncertain revenue source such as sin taxes.

The bill includes a one-time 15% tax on all existing stock of tobacco products held by distributors, and raises the price of a pack of cigarettes from \$0.79 to \$2.29. This will move Kansas from 36 to 12 in high state cigarette taxes rates.

HB 2306 will make Kansas the highest in the nation for sales taxes on alcohol, jumping from 8% to 12% for all retail alcohol sales.

Severe market distortions like those created by HB2306 will certainly cause unwelcome and wholly foreseeable results. In addition to the typical smuggling and illegal distribution, Kansas retailers in NE Kansas will be forced to compete with Missouri stores that only have a \$0.17 tax on a pack of cigarettes, no special alcohol sales tax, and a gas tax that is 7 cents lower. The cumulative effect of these tax imbalances makes a trip across the border more enticing and worth a longer drive.

We urge the Committee to avoid a tax policy based on single product taxes, that picks winners in neighboring states, and losers here at home.

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