



DAILY NEWS CLIPS

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WHERE THERE'S SMOKE, THERE'S TAX REVENUE

By Kathryn A. Wolfe

Politico

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Smoke 'em if you've got 'em — before the taxman comes.

Tucked into the Senate's transportation bill, currently being debated in conference committee, is a provision that would reclassify tobacco shops that rent "roll your own" cigarette machines as manufacturers. Why? To collect more tax revenue.

The machine's manufacturer says it's nothing more than an attempt by Big Tobacco and convenience store chains to shut them down. Tobacco companies such as Liggett Group, which makes Salem and other generic cigarettes, and Altria Group, the parent company of Philip Morris, are backing the change, saying they want a level playing field for their products.

Proponents say it's about closing a loophole increasingly being used to circumvent vice taxes.

The machines can produce the equivalent of about a carton of cigarettes in eight minutes, allowing smokers to make quick work of a bag of loose tobacco and pre-formed cigarette papers with filters already attached — for a lot cheaper than a carton of Marlboros.

The problem, according to proponents of the change, is that smokers are increasingly using pipe tobacco — which is subject to a much lower tax rate than other cuts of tobacco — in the machines. And manufacturers are increasingly mislabeling "roll your own" tobacco as pipe tobacco.

The loophole that proponents are looking to close was created in 2009 with the enactment of an expansion of State Children's Health Insurance Programs, paid for by tax increases on some kinds of tobacco. Taxes on "roll your own" tobacco and pre-made cigarettes were increased, but pipe tobacco was left at a much lower tax rate.

According to the Government Accountability Office, monthly sales of pipe tobacco increased from 240,000 pounds to more than 3 million pounds between January 2009 and September 2011. During the same time period, sales of tobacco classified as "roll your own" dropped from about 2 million pounds to about 315,000 pounds.

Phil Accordino, president of Ohio-based RYO Machine, the largest maker of the contraptions with machines in about 1,000 tobacco stores nationwide, called the reclassification attempt “ridiculous.”

RYO has enlisted some help lobbying against the provision and other standalone bills, in the form of Arent Fox, Liberty Partners Group and HBW Resources.

Beyond lobbying Congress, RYO is also engaged in a court battle with the Alcohol and Tobacco Tax and Trade Bureau, which in 2010 attempted to regulate the machines as manufacturers. RYO has won injunctions against the change in some states, and the fight is ongoing.

“They want to classify anything that comes out of our machine as a manufactured cigarette. It makes no sense,” Accordino said. “Which is as ridiculous as saying ... [you’re a manufacturer] if you make your own Slushee or ice cream cone or hot dog, or grind your own coffee beans in a grocery store.”

Accordino said if a retailer gets categorized as a manufacturer, it raises a whole host of other questions, including those related to zoning and licensure.

“If you categorize a retailer as a manufacturer, then he is automatically out of business because there’s not a retail outlet in the country that is zoned for commercial manufacturing,” Accordino said. “It’s impossible. This is not anything but an attempt to remove us from the category.”

Accordino said if Congress wants to capture more tax revenue, it should just harmonize pipe tobacco taxation rates with other kinds of tobacco — and leave the machines out of the picture.

Seth Mailhot, an attorney with Sheppard Mullin Richter & Hampton, who is following the case, said reclassification may be a more favorable tack for a politician because it’s not seen as raising taxes.

“No one wants to be seen as raising taxes on anything, even pipe tobacco. So there’s sort of this perception that Congress would rather just change the rules on who’s a manufacturer because that doesn’t look like a tax increase,” Mailhot said.

Sen. Dick Durbin (D-Ill.), along with Frank Lautenberg (D-N.J.) and Richard Blumenthal (D-Conn.), has introduced a bill separately that would grant Accordino’s wish.

Instead of going after reclassifying the machines, it seeks to harmonize the tax rates of several tobacco products, including pipe tobacco — which would be set at \$24.78 per pound, the same as the current rate for “roll your own” tobacco.

Durbin, the bill’s main sponsor, is a conferee on the transportation bill, though an aide refused to discuss whether he preferred the approach in his standalone bill enough to fight to have the reclassification language scrapped from the final transportation bill.

“Tobacco has been something he’s crusaded against and about for a long time. At every opportunity he has been looking for ways to prevent children from taking up the habit,” said Christina Mulvey, a Durbin spokeswoman.

The Senate Finance Committee said the provision in the transportation bill is estimated to raise about \$99 million over 10 years, but the money wouldn't be used for transportation programs — it would go to deficit reduction.

TOBACCO STORE TO OPEN ON HENDERSON ST.

By John Pulliam
The Register-Mail (IL)
May 16, 2012

Discount Tobacco Ware House plans 10 stores in state

A Springfield man who was raised in Jacksonville and comes from a family with a business background here is the owner of a discount tobacco store that will open soon next to Tri-Lutions at 1042 N. Henderson St., a building owned by Dave Calderone.

Tom Ware's family used to own the Wareco service stations here. He said those were sold to Clark about 11 years ago. Those stations are no longer in business.

Discount Tobacco Ware House will have 10 stores in Illinois and one in Missouri when the Galesburg shop opens. Ware said another store will open in Champaign about a month after the Galesburg store.

"We're hoping to open by early June," he said, as he talked with a representative of a sign company Tuesday morning inside the more than 1,000-square-foot space that will house the new store. Brian Parr, who manages the chain's Peoria store, will also be the manager of the Galesburg location. Discount Tobacco Ware House also has a store in Moline.

"We're looking at the Macomb area," Ware said, explaining there are plans to open four to five stores this year after opening five last year.

"We survive just by selling large volumes of tobacco at discount prices," he said. "We try to have managers who are very customer oriented."

Ware said his stores that stock a large line of roll-your-own tobacco products, cigars — both premium and "little" cigars — as well as "every brand of cigarettes under the sun."

Pipe tobacco, various smoking pipes and a "premium cigar humidor" are also features of the new stores. The store will stock discount soda pop, as well.

"We just thought there was an opportunity in Galesburg," Ware said. "Galesburg was good to Wareco and I remembered that."

He pointed out there is plenty of parking at the building, another plus for opening here.

Tuesday morning, the space sat empty inside, except for various people talking, laying the groundwork for the store's opening. Ware showed a cell phone picture of the natural, wood-grain slats in the Peoria

store, which will also be used in Galesburg. Philip Morris USA, a tobacco company that includes brands such as Marlboro, gives the stores racks for behind the counters.

“We custom build all our own counters,” he said.

There will be four to six employees.

“We’re looking for hourly employees and we’ll be hiring very soon,” Ware said. He said the company is running an ad for employees on the online hiring website Monster.

The company, with a slogan of “Discount, Selection, Service ... That’s how we roll,” has been in business as a tobacco-only group of stores since 2008. And, while the state often looks to higher taxes on smokers as a way to try to dig itself out of a massive hole filled with red ink, Ware is not concerned about that, as it pertains to the future of his stores. He said higher taxes on tobacco increase the need for discount tobacco shops.

“Our feeling is the higher taxes go on cigarettes and the higher prices go on cigarettes, the more we can offer our customers,” he said.

Originally published here: http://www.galesburg.com/newsnow/x1986334025/Tobacco-store-to-open-on-Henderson-St?zc_p=1

MARYLAND HOUSE OKS BUDGET PACKAGE, ENDS SPECIAL SESSION

By Brian White (AP)

Delaware Online

May 16, 2012

The Maryland House of Delegates today gave final approval to a budget package that raises income taxes for some and splits teacher pension costs with local governments.

The House voted 77-60 on the measure, raising taxes on single filers who make more than \$100,000 and joint filers who make more than \$150,000. That move ended a special session called by Gov. Martin O’Malley to avoid about \$500 million in budget cuts.

Delegates voted 86-51 for a separate bill to split teacher pension costs over four years and raise taxes on tobacco other than cigarettes.

The special session was needed because the General Assembly failed to pass the package during its regular 90-day session that ended last month.

“Unfortunately, we didn’t get it done in a 90-day period of time, but I think everybody understood that we had to come back and do what we believed was in the best interest of the citizens of Maryland — something that we worked on for a 90-day period of time,” House Speaker Michael Busch, D-Anne Arundel, said.

Debate lasted more than two hours with loud and occasionally heated opposition from Republicans that prompted Busch to ask lawmakers to talk in a volume conducive to speaking indoors.

Democrats said the package was needed to avoid painful cuts to education, health and public safety.

"I support this legislation, and I urge the body to do so as well, because it allows us to be fiscally responsible while still funding our shared priorities," Delegate Anne Kaiser said.

But Republicans said the so-called "doomsday" budget that went into place at the end of the regular session when the revenue package failed was a more responsible way to balance the budget, because it avoided tax increases they say will hurt business development and job growth.

"If that's doomsday, my friends, we need more of it — and soon," said Delegate Herb McMillan, R-Anne Arundel.

Lawmakers are working to reduce an ongoing budget deficit of about \$1.1 billion by about half. They plan to address the other half next year.

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<http://www.delawareonline.com/viewart/20120516/NEWS02/305160062/Maryland-House-OKs-budget-package-ends-special-session?odyssey=tab|topnews|text|Home>

BLOOMBERG GIVES TO CALIF. TOBACCO TAX CAMPAIGN

By The Associated Press (NY)

The Wall Street Journal

May 16, 2012

New York City Mayor Michael Bloomberg has given half a million dollars to a campaign supporting a California initiative that would raise the state's cigarette tax to fund cancer research.

Bloomberg challenged supporters of Proposition 29 this week to match that amount, hoping to raise a total of \$1 million to help pass the June ballot measure.

The measure championed by cycling legend and cancer survivor Lance Armstrong would add a \$1 per pack cigarette tax.

Bloomberg says he put up the money to counter the nearly \$40 million contributed by major tobacco companies, whose opposing campaign says the measure would create a bureaucracy that could send tax dollars out of state.

In his decade in office, Bloomberg has expanded his city's no-smoking policies, banning cigarettes in workplaces, parks and beaches.

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