

Submitted by
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Cigar Taxes in Michigan

The Truth about Lost Revenue

Explanation of the Tax

- Box of Cigars from manufacturer costs \$100.00
- Acquirer of Cigars pays \$32.00 to State on 20th of month following acquisition.
- New Michigan cost is \$132.00
- Retailer sells for approximately \$160.00

Explanation Internet Cigar Sales

- Out of State Company pays \$100.00 for Cigars
- Out of State Company sends catalogs and emails to Michigan Cigar Smokers
- Michigan Consumers and unlawful retailers place orders from Out of State Company
- Out of State Company sells product for \$120.00
- State does not collect \$32.00 and Michigan Businesses lose the sale and profit opportunity.
- State also loses the 6% sales Tax

Actual Example

Name of Cigar	#/ bx	Mfg Cost	Michigan Cost w/ 32%	Average Sell Price MI	JR Cigar	Cigars International	Holt	Thompson	FAMOUS
MACANUDO PRINCE PHILLIP	10	47.9	62.23	72	55.78	55.78	55.78	66	55.99
ROMEO RESERV CHURCHILL	25	81.88	108.08	175	147.38* FREE 6 CIGARS	147.38	147.38	150.00* -\$30.00 FREE SAMP	147.38* FREE 5 PK
Helix 542	25	50.75	66.99	85	58.04	58.04	58.04	N/A	63.99
Sancho Panza Dulcinea	20	54.5	71.94	110	72.51	72.51	72.51	101	72.99
Montecristo White Churchill	27	143	188.76	280	219.96* Free Watch Offer	257.4	257.4	260.00* Free Sampler	257.99
Don Diego Robusto	27	86.25	113.85	140	94.88	94.88	94.88	N/A	94.99

- Note That Largest Mail Order Internet Companies are owned by Cigar Manufacturers

The Competitors of Michigan Retailers

- There are approximately 15 major Online Cigar Retailers that represent an estimated 80% of the sales into Michigan.
- The remaining 20% is divided up by as many as 300+ potential mail order and internet sellers.
- It is estimated that over 60% of all Premium Cigars consumed in Michigan are Non OTP and Sales Tax Paid Cigars

Consumers Reason For Purchasing Outstate

- Price – Price – Price. The consumer can start with a savings of 32% from the OTP, add another 6% for the Sales Tax, and then in the case of Manufacturer owned Online Retailers... The Costs are even lower.
- Catalogs Soliciting Business sent to homes on a weekly basis.
- Email Solicitations Daily
- No risk of getting caught as there is no enforcement.

A Bigger Problem: Retailers Purchasing Out of State

- For the unethical retailer the gains are even greater as they have the opportunity to sell large quantities of untaxed cigars.
- It is too easy to do... Buy one box from a Michigan Wholesaler and you have an OTP Tax Paid Invoice in your possession. Then, simply refill that box by ordering online and not paying the tax ever again. Upon audit, the invoice shows that the cigars on the shelf are tax paid
- Average Margins for ethical retailers on Cigars are 35%... Don't pay the tax and your margins double.
- Unethical retailers drive tax paying ethical retailers out of business.

Another Potential Problem: Unethical Wholesalers Purchasing Out State

- The average margin for a legitimate wholesaler is 8%. If this operating margin can be increased by 32%, it does not take long for a wholesaler to generate huge profits given their volume.
- A trunk filled with cigars brought in from Pennsylvania can be worth as much as \$5,000.00, a truckload...\$50,000.00
- Unethical behavior puts legitimate tax collecting wholesalers out of business.

FACT

- When Taxation is so great that the monetary value of an unethical transaction creates an opportunity, the criminal element will become involved.
- This is especially true if there is little or no enforcement.

Why Implement a .50 cent Cap on Cigars

- Reduce the 32% Tax and See an Increase in OTP Revenue
- Remove the Opportunity for Unethical Businesses to prosper
- Keep the Cigar Business Here in Michigan Where it Belongs
- See an increase in Sales Tax Revenue
- Create increased revenue to fund enforcement
- Create Jobs in Michigan Retail Stores as sales increase