



**McLane Company, Inc.**

**Written Testimony by McLane Company, Inc., In Opposition to Proposed Tobacco Tax  
Increases and Floor Stock Tax Provisions  
HB 2270**

***House Committee on Revenue  
April 10, 2019***

McLane Company, Inc. is a wholesale distributor of consumer and food products with operations across the United States, including a food service distribution center here in Oregon. Because of the variety of products we distribute for sale, McLane is typically one of the state's largest excise taxpayers. In 2018, in Oregon alone McLane paid \$42,163,674 in tobacco excises taxes.

All the proposed tobacco tax measures being considered today in the Committee on Revenue contain burdensome language to impose a floor stock tax on the cigarette inventory of a dealer (retailer) and wholesaler/distributors. The language in the legislation includes a tax on affixed and un-affixed cigarette tax stamp inventory of a licensed distributor on the effective date of the tax increase.

A floor stock tax is a one-time tax on all tax paid (stamped) cigarettes and un-affixed tax stamps in the possession of distributors, wholesalers and/or retailers on the effective date of a tax increase. The floor stock tax rate is the difference between the old tax rate and the new tax rate.

Distributors and retailers are adversely affected by the imposition of the floor stock tax and we **oppose** any measure that places an undue burden on the distribution community.

Excise tax increases elevate McLane's costs associated with the cigarette distribution operation. These increased costs are only exacerbated by the additional imposition of the tax on our inventory already in the stream of commerce. Retailers buy stock on credit term and the excise tax increase that would be imposed on the floor stock would have a corresponding effect on the risk of delinquency and non-payment by those retailers on cigarettes. When faced with this bad debt issue, McLane Company has no means of recourse to recover the additional tax that has already been remitted to the State.

In essence the distributor is the sole entity that carries the burden of the tax and the additional floor stock tax only manages to compound these costs and risks.

Additionally, costs that we must plan for include increased compliance costs such as record keeping and inventory requirements for the floor stock during the transition to the new rates. Also, keeping in mind the additional reporting requirements administered by the taxing authority. The additional labor cost associated with the physical process of inventory tracking alone is a burden not included in budgeting.

Imposing the excise tax increase on floor stock inventory creates practical management problems, increases compliance costs and subjects our company to significant risk and exposure.

Thus, to assist us in the reorganization of business operations in lieu of the increased taxes we ask that the floor stock provisions be removed or some form of transition relief be considered.

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