

PO Box 298, 423 S. 5<sup>th</sup> Street

Williamsburg, KY 40769

Toll Free 800-467-1334 Local 606-549-1334 FAX 606-549-5852

For KY Stores



Web: [www.renfrosupply.com](http://www.renfrosupply.com) email: [gnaumann@renfrosupply.com](mailto:gnaumann@renfrosupply.com)

## **SCHIP TAX INCREASE INFORMATION**

The Federal SCHIP legislation has been signed into law. The five year estimated cost of \$35.3 Billion dollars will be funded entirely by increased Federal Excise Taxes (FET) on tobacco products putting the entire burden on the 18% of the population that uses tobacco products.

All manufacturers, wholesalers and retailers will be required to inventory their cigarette and tobacco products as of midnight March 31, 2009 and pay the difference between the old tax and the new tax to the Federal Government. The tax will be payable on August 1, 2009. In March each wholesaler and retailer should receive an information packet and floor stock reporting forms from the Federal Government detailing the floor stock tax requirements and procedures.

### **KENTUCKY TAX INCREASE**

Kentucky has also signed a new law that raises State Excise Taxes on Cigarettes and Other Tobacco Products effective April 1, 2009. KY's new cigarette tax will be raised by 30¢ per pack to 60¢ (\$6.00 p/ctn) and the OTP Tax has been raised from 7.5% to 15%. Moist Snuff has been raised from 9.5¢ p/can to 19¢ p/can. Kentucky law requires an inventory and floor stocks tax procedure on the tax difference too.

### **RENFRO SUPPLY SUGGESTIONS**

*(Please note - These are only suggestion/ideas to help you manage your business & inventory before and during this transition. Renfro Supply in no way assumes responsibility for your final decisions)*

**Roll Your Own and Cigarette Tubes** – The FET on RYO tobacco will be increasing from \$1.0969/lb to \$24.78/lb this could reduce demand on the RYO tobacco category. We suggest you sell down on your RYO and cigarette tube stocks to bare minimum before April 1<sup>st</sup>. KY State Excise Tax is an additional 7.5%. FYI Note: A 1 lb bag of RYO Tobacco yields approximately 2.5 cartons.

**Little Cigars** – The FET on little cigars will be increasing from 36.56c/pack to \$1.0066/pack. We anticipate a significant slowdown of sales as the FET will effectively double the cost of a pack of little cigars. We suggest you sell down your little cigar inventory significantly before April 1<sup>st</sup>. KY State Excise Tax is an additional 7.5%.

**Cigars** – The FET on cigars will be increasing 32%. This will negatively impact sales. Despite the increase we expect cigar sales to decline only moderately. We suggest you sell down you cigar inventory by about 25% before April 1<sup>st</sup>. KY State Excise Tax is an additional 7.5%.

For more information go to this web site [http://www.ttb.gov/main\\_pages/schip-summery.shtml](http://www.ttb.gov/main_pages/schip-summery.shtml) or contact the National Revenue Center with any questions. Please email your questions to [ttbtobacco@ttb.treas.gov](mailto:ttbtobacco@ttb.treas.gov) or call the NRC at 1-877-TTB-FAQS (1-877-882-3277) toll free or at (513)-684-3334.

**Other Tobacco (snuff, scrap, pipe)** – The FET on these products is moderate and should have little effect on sales. We suggest you maintain your normal inventories on these products. (see note below) KY State Excise Tax is an additional 7.5%.

**Cigarettes** – The FET on cigarettes will increase by approximately \$6.20 per carton. Industry estimates are that initially sales may decrease by as much as 24% and gradually increase to a more moderate decrease of 8-10% of pre-tax increase sales over the next six months. We suggest you maintain full normal inventories of cigarettes through March 31<sup>st</sup>. (see note below) KY State Excise Tax will increase \$3.00 per carton.

**Inventory levels** – We suggest you maintain FULL normal inventories on snuff, scrap tobacco and cigarettes through March 31<sup>st</sup>. Remember the floor stock tax is not due until August 1, 2009. By maintaining full normal inventories on these products it will allow you to sell your on hand inventories at the new higher cost thus generating the cash flow needed to re-purchase inventory at the new higher costs minimizing any negative cash flow on April 1<sup>st</sup>. You will then have 4 months to re-adjust your inventories based on actual changes in sales and/or generate the extra profits needed to fund your cigarette and tobacco inventory based on the new tax.

We have already received notice from all our tobacco and cigarette manufacturers that they are limiting our purchases from now until April 1<sup>st</sup> to our normal purchase amounts. Therefore, in order to maintain inventory for all our customers we will not be able to honor tobacco and cigarette orders above your normal purchase quantities.

#### **RENFRO SUPPLY RETURN POLICY CHANGES DUE TO NEW TAXES**

In order to maintain proper inventory levels and comply with the requirements of the floor stock tax Renfro Supply will be instituting the following return policy changes on tobacco products effective March 1, 2009.

**Roll Your Own & Cigarette Tubes** – March 1, 2009 – April 1, 2009 no returns of saleable RYO and cigarette tubes will be accepted. After April 1<sup>st</sup> any returned RYO or cigarette tubes will be credited at the last price you paid (you will not receive credit for the floor stock tax amount if purchased before April 1<sup>st</sup>).

**All other Tobacco and Cigarette products** - From March 15, 2009 to April 1, 2009 no returns of saleable tobacco and cigarettes will be accepted. After April 1<sup>st</sup> all tobacco and cigarettes will be credited at the last price you paid (you will not receive credit for the floor stock tax amount if purchased before April 1<sup>st</sup>).

**Payment of your Account** – We are obviously forced to keep a much closer eye on accounts and strongly encourage you to be totally current (within your terms) by April 1, 2009. It is necessary that we strictly adhere to our credit policy.

*If you have any questions, ideas, or suggestions please talk to your sales person, call, or email us. And as always thank you for doing business with Renfro Supply*