

Mayfield, Christopher

To: Bennion, Richard
Subject: RE: Tobacco "Retail Stock" Amendment

From: Celeste Cummings
Sent: Thursday, February 16, 2017 4:00 PM
To: Bennion, Richard
Cc: Mash, Pamela (Legal)
Subject: Tobacco "Retail Stock" Amendment

Dr. Mr. Bennion,

I am writing to you about the "Retail Stock" amendment to California Code of Regulations, Title 18 as detailed in the Notice of Proposed Regulatory Action Regulation 4001 dated January 6, 2017. The notice states: "that a person who is both a licensed retailer and a licensed distributor and makes substantially all sales as retail sales to consumers holds all inventory intended for sale in the retail location in retail stock". This precludes these retailers from storing wholesale inventory in a separate location and moving the product into a retail location over a period of time.

At the end of each year, many cigar factories shut down in December. They reopen in January and typically receive their first shipment near the end of January or the beginning of February. As most manufacturers are located in Florida, it takes another week or two before the product arrives in the store. To ensure my shelves are stocked throughout this period, I place an order at the end of November to meet my needs through February. I hold the excess product in wholesale, in a separate humididor and move product into retail in January and February, paying the tobacco tax in each of those months. This process allows me to maintain adequate inventory while controlling my cash-flow.

Under our current tax structure paying the entire tobacco tax for the large year-end order would be difficult but manageable. With the passing of Proposition 56 which will triple my tax liability, paying the tobacco tax for the large year-end order would require a loan against my inventory. My alternative is to purchase less product and potentially run out of stock.

It is my understanding that the purpose of this change is to ensure a thorough inspection of tobacco inventory. To that end, I believe the requirement to store wholesale inventory in a separate, secure location inaccessible to the public, is fair and just. However, the requirement that all inventory intended for sale is retail stock and is therefore immediately taxable, in light of Proposition 56, will place an undue financial burden on small retailers.

I do not believe the the BOE intends to severely hamper small business owners ability to manage their cash-flow. In light of the financial impact of Proposition 56, I urge you to reconsider this specific provision and adopt a change that meets the needs of the BOE inspectors while allowing small business owners to manage their business without going into debt.

Respectfully submitted,
Celeste Cummings