

Testimony of  
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Before the Pennsylvania Finance Committee on New Taxes  
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Good Morning chairman Brown and the members of the Pennsylvania Senate Finance committee who are considering proposed tax increases on cigarettes and other tobacco products.

I welcome the opportunity to visit with you today and provide you with an inside view of the convenience store as it exists today and how any additional taxes on cigarettes and other tobacco products will play a role in the inevitable death of our convenience store.

Additional taxation on tobacco products will result in an overall reduction of convenience store sales fueled by smokers who will quit. Those who remain smoking will simply travel to West Virginia (\$5.50 per carton) and other lower tax states to purchase their cigarettes and other tobacco products.

Currently, 23% of Pennsylvania's population (smokers) subsidize the other 77% of non smokers who enjoy, without concessions, the beautiful resources of Pennsylvania such as state parks, roadways, bridges, and the S-Chip program for children without healthcare. Should not taxation be equitable and spread evenly over the entire population of the Commonwealth?

Road Runner is a medium to large size convenience store with approximately \$2,800,000 dollars in sales. Our sales are broken down as follows:

\$ 800,000 in Tobacco sales  
\$ 1,500,000 in Gasoline Sales  
\$ 500,000 in drink, candy, lunch meats, snacks, grocery and newspaper sales

Our store is currently the #1 lottery agent in a 180 lottery store region and will soon be receiving a second lottery terminal. My wife and I work long hours and many times we work extra shifts for employees who do not show up for a shift.

Our gross profits come from earning a depressive 6% profit margin on tobacco products which generates about \$60,000 per year in gross profits (earnings + manufacturer shelf payments)

We currently earn 7 cents per gallon on gas (street price \$1.859 less \$1.786 cost) which generates approximately \$31,000 in gross profit per year. Of the 7 cents profit per gallon we give back 4.3 cents per gallon to credit card clearing agents for processing the various credit cards we accept. Sadly, credit cards companies earn more per gallon than convenience stores!

Road Runner's continued success is based upon our future ability to pay our clerks a minimum wage of \$7.15 per hour (up from our previous starting wage of

\$6.00 per hour 18 months ago). We currently employ 5 full time and 8 part time employees. Our part-time employees currently work to subsidize their social security income, to put money away for college, or many times work just to make ends meet for their families. Financially, our total wage cost per hour for a starting full time employee is actually \$11.03 per hour and is broken down as follows:

\$7.15 per hour	- Hourly Wage
\$2.48 per hour	- Hospitalization for full time workers
\$ .50 per hour	- Employer Social Security Contribution
\$ .50 per hour	- Pennsylvania Workmen's Compensation Insurance
\$ .20 per hour	- Pennsylvania State Employer Unemployment Taxes
\$ .20 per hour	- 401K Contributions (3% contribution)

Also, the minimum wage increase in July of 2007 became problematic because previous \$7.50 wage earners wanted the same \$1.15 per hour wage increase. We consequently found it difficult to tell multi-year veteran employees that they would not see a wage increase, yet they were now working beside new hires for the same money. Convenience stores gross profit margins are relatively fixed due to state minimums on cigarettes and competitive "no margin" gas pricing initiated by larger chain convenience stores. Badly needed are state minimum margins on gasoline sales, increased profit margins on cigarette sales and reduced network costs to clear credit cards.

Sadly, in 1998 our weekly gas profits paid our entire weekly payroll. Now our weekly gas profits barely cover 1/6<sup>th</sup> of our weekly payroll. There are lessons to be learned from analogy alone.

Road Runner directly provides the State of Pennsylvania with almost \$500,000 in state sales, excise and wage taxes. This taxation consists of:

\$ 61,000	in Sales tax
\$ 248,000	in Gasoline tax
\$ 4,000	in Earned Income tax
\$ 6,600	in Underground Storage Tank Indemnification Fund tax
<u>\$ 175,000</u>	<u>in Cigarette tax</u>
\$ 494,600	Total PA taxes

Additional taxation of tobacco products will simply fuel the pyramid tax scheme and result in Pennsylvania spending more than they can afford by subsidizing pet projects at the top with new taxes at the bottom. When the tax scheme collapses, as it has already done in the State of California, what will the State of Pennsylvania do then ? I guess - just raise taxes again!

When consumers become out-taxed they will simply begin to spend their money where it is more important to them. This will result in reduced or diverted tobacco purchases, reduced lottery ticket purchases and the loss of profits at Road

Runner to support 13 tax paying, college seeking, Social Security subsidizing, "barely making it" employees.

In closing, Road Runner made a net profit in 2007 of \$112,000 with a capital investment valued at well over \$1,000,000. Based upon my initial profit review it appears Road Runner will barely break \$70,000 in profits for 2008. The hand writing is on the wall. The question is: When will the economic wall totally crumble!

Thank you Mr. Brown and other committee members for your time and consideration on new improperly directed taxes.

Thomas C Seaman