

MARYLAND TAXPAYERS ASSOCIATION

Spotlight on Annapolis-Week of Feb 9 - Testing Working Together!

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Governor Larry Hogan gave his first **State of the State** speech this past Wednesday. It was a net positive for Maryland citizens. See it by clicking here or pasting to your browser: <http://www.c-span.org/video/?324185-1/maryland-governor-larry-hogan-r-state-state-address>. Let's hope for some "across-the-aisle" cooperation.

UNINTENDED CONSEQUENCES

A must read below is MTA Board member Jeff Ferguson's testimony on the unintended consequences on human behavior regarding not just another tobacco tax, but any tax. His point has nothing to do with smoking, but with the harmful effects of any bad legislation passed without due consideration. It is well worth your attention.

TAXES-

Efforts at tax reduction this week, though small, start to take some of the sting out of Maryland's taxes on everything.

The most significant of these are to be heard Tue, Feb 10 in House Ways & Means. All deal with Cost of Living Increase (COLA) adjustments in the Income Tax and all prevent rising inflation from increasing taxes.

HB 142- Increase tax exemptions.

HB 146- Increases minimum and maximum of the standard deduction.

HB 147- Increase graduated income tax rate thresholds. Federal taxpayers have had this benefit since the early 1980s.

Taxpayers should call or email Ways & Means Committee members urging them to pass these bills on to the House floor for a full vote. If the bills pass the whole House, then they will cross over to the Senate for a vote there.

OTHER BILLS THAT MAY INTEREST YOU

SB 99- moves away from gerrymandered Congressional voting districts that take away the effect of voters in too many districts by creating a temporary **redistricting commission**. MD is one of the most gerrymandered states. (Thu, Feb 12 in Senate Education, Health, & Environmental Affairs).

HB 122- Establishes a **Task Force to Study the Impact of state and Local Taxes on Small Businesses**. *Hooray!*

[Below is Jeff Ferguson's testimony about the forecasting of tax policy. The testimony will also be posted at www.mdtaxes.org.](http://www.mdtaxes.org)

Jeffrey Ferguson
Testimony
SB37 Tobacco Taxes – Healthy Maryland Initiative

Good Afternoon. I am here to discuss a better approach to dealing with the proposed tax on cigarettes. Let me first preface my remarks by stating that I don't currently smoke tobacco products, have never smoked and any taxes raised on cartons or packs of cigarettes will have no impact on my lifestyle or purchasing habits. I am here to discuss what I believe is a better approach to establishing public policy and regulations in this area.

Maryland's history of collecting expected revenues after tax increases has been very poor. The state lost about 30% of its millionaires after the millionaires tax went in effect which led to tax collections falling by \$257 million according to the Wall Street Journal. Revenues for alcohol sales fell by 32% in the following fiscal year and have remained there since the 50% tax surcharge was implemented. Tax collections for alcoholic beverages increased a mere \$1 million while cumulatively the state lost income taxes on \$438 million since this tax increase went into effect. These failed expectations have led to a myriad of tax increases as an attempt to fill the revenue gap. None of these tax increases factored in human behavior and how people respond to costs that impact their way of living. Assuming that people don't change when you impact their lifestyle is foolish and results in poor public policy.

According to the Tax Foundation which based its data on a Mackinac Center for Public Policy study, the black market for cigarette consumption in Maryland increased from 10% to 25% after Maryland last raised its cigarette tax to \$2.00 per pack. Mackinac estimates are that the black market usage in Maryland would increase to 52% if there were another \$1.00 per pack tax added to cigarette sales in Maryland. The net answer is that we would see more smuggled cigarettes coming into the state and placing police attention on a "crime" that is fairly benign compared to others.

Reviewing our objectives of taxing tobacco products, they are as follows:

- Reduce current smoker consumption of cigarettes,
- Promote healthier lifestyles for more Marylanders,
- Deter younger people from starting to smoke and use tobacco products; and,
- Generate the revenue necessary to broaden education efforts regarding smoking while controlling the growth of the black market.

I believe that there is a better way to accomplish these objectives. In other words, we want to maximize the revenue generated from the tax while minimizing the unintended consequences of the tax increase. My suggestion is that the legislature go to one of our fine universities and obtain the services of an economist or operations research professor who has the skills to model the resulting behaviors to determine an optimal tax increase that accomplishes the objectives. This is not a new concept. It is frequently done in pricing hotel rooms, airplane seats and new products. Rather than arbitrarily choosing a number that is literally plucked from air, an analytical approach would provide better financial results for the state, come closer to fulfilling objectives and develop more rational regulations.

Thank you for your time and consideration.

Jeff Ferguson's email is jeff.ferguson@mdtaxes.org.