

Modernizing Maryland's Tobacco Tax Will Improve Public Health, Raise Needed Revenue

Position Statement in Support of Senate Bill 3

Given before the Senate Budget and Taxation Committee

Maryland's economy has changed in important ways since the turn of the century, but our revenue system has not always kept up. Outdated provisions in our tax code contribute to stagnating revenue growth, making it harder each year to meet Marylanders' needs—and in some cases, these provisions can actively harm public health. Improving Maryland's tobacco tax would raise needed revenue and simultaneously curb new and old threats to Marylanders' health. For these reasons, the Maryland Center on Economic Policy supports Senate Bill 3.

Although we have made encouraging strides in reducing smoking during the last several decades, tobacco still poses a major threat to Marylanders' health. Old and well-understood dangers remain, with approximately 150 million packs of cigarettes—3 billion cigarettes altogether—sold in Maryland each year.ⁱ And new, less-understood dangers are growing, as the popularity of vaping products has increased young Marylanders' nicotine use and caused a small number of users to suffer severe, sometimes deadly lung injuries. Among the most devastating effects of tobacco on Marylanders' health, more than 2,600 of our state's residents died of lung cancer in 2016, with Black men facing a higher age-adjusted mortality rate than any other group.ⁱⁱ

At the same time, Maryland has been underinvesting in the foundations of our communities ever since the Great Recession. We chipped away at public school funding, allowing the number of school districts that were close to full funding under the Thornton formula to fall from 23 out of 24 in fiscal year 2008 to only six by 2017—with more than half of the state's Black students going to school in a district that was underfunded by 15 percent or more. We have allowed other essential investments to erode as well. State support for local boards of health was 42 percent lower in fiscal year 2019 than in 2008, adjusted for inflation, and only 5 percent higher than the 2011 post-recession nadir. In fact, state support for local boards of health was only slightly higher in 2019 than it had been in 2011—*before adjusting for inflation*. In constant-dollar terms, the state contributed less than half as much to local boards of health in 2019 as it did in 1990.

Senate Bill 3 would both discourage tobacco and nicotine use and simultaneously raise an average of about \$50 million each year that we can invest in essential services like public health and public schools. It is long past time for Maryland to tax vaping products just as we do to other tobacco products—as nearly all of our neighboring states do—and strengthen our cigarette tax to reduce smoking.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make a favorable report on Senate Bill 3.

Equity Impact Analysis: Senate Bill 3

Bill summary

Senate Bill 3 takes multiple steps to update Maryland's tobacco taxes. The bill increases the tax on cigarettes from \$2 per pack to \$4 per pack; it standardizes the tax rate on other tobacco products such as pipe tobacco and cigars to 86 percent of wholesale price; applies equal standards to vaping products as to other tobacco products; and repeals a provision that currently prohibits local governments from setting their own tobacco tax policy.

Background

Vaping products have become increasingly popular in recent years, with United States sales of vaping products nearing \$7 billion in 2018.ⁱⁱⁱ Although vaping products are not currently known to pose the same long-term cancer risk as cigarettes, they were linked to striking, and sometimes deadly, acute lung injuries in 2019.

Equity Implications

Senate Bill 3 has three conflicting equity implications:

- Our current, inadequate tax policies and regulations allow large, multistate corporations to profit by selling addictive, dangerous products to Marylanders. The harms of our current policy are spread unevenly, with Black men in Maryland facing a higher age-adjusted mortality rate from lung disease than any other group in the state. Senate Bill 3 would counteract these harms by financially discouraging the use of tobacco products.
- Improving our tobacco tax policies would generate public resources that could be invested in things like world-class schools and public health. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.
- Despite these benefits, Senate Bill 3 would worsen Maryland's upside-down tax code, which already allows the wealthiest 1 percent of households to pay a smaller share of their income in state and local taxes than the rest of us do. Like other so-called "sin taxes," tobacco taxes place the greatest responsibilities on people who already struggle to make ends meet.^{iv} Altogether, typical Maryland households pay six times as much in excise taxes (including sin taxes as well as others) as a share of their income than do the wealthiest 1 percent, while the one in five Marylanders with annual income less than \$24,000 paid 12 times as much in excise taxes as the wealthiest 1 percent.^v
- Enacting Senate Bill 3 as part of a comprehensive package of reforms to clean up Maryland's tax code would improve this source of inequity, especially if it were paired with working family tax credits to offset the impact on Marylanders who already struggle to make ends meet.

Impact

Senate Bill 3 would likely **have mixed effects on racial and economic equity** in Maryland.

ⁱ Based on MDCEP analysis of Maryland cigarette tax revenue data. At \$2 per pack, approximately \$300 million in estimated annual revenue in fiscal years 2020 and 2021 translates into about 150 million packs of cigarettes sold.

ⁱⁱ Centers for disease Control and Prevention,

ⁱⁱⁱ Lora Jones, "Vaping: How Popular Are E-Cigarettes?" *BBC News*, 2019, <https://www.bbc.com/news/business-44295336>

^{iv} "Cigarette Taxes: Issues and Options," Institute on Taxation and Economic Policy, 2016, <https://itep.org/cigarette-taxes-issues-and-options-1/>

^v MDCEP analysis of 2018 Institute on Taxation and Economic Policy state tax data.