



MARYLAND BUDGET & TAX POLICY INSTITUTE

POSITION STATEMENT

SUPPORTING

SENATE BILL 717 - The Lorraine Sheehan Health and Community Services Act of 2010

Senate Budget and Taxation Committee

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The Maryland Budget and Tax Policy Institute supports Senate Bill 717.

State tax revenues have fallen over the last two years by historic proportions. They are nowhere near the level needed to maintain appropriate services for Maryland residents. This year's budget gets a boost from over \$900 million in one-time transfers and \$1 billion in federal stimulus aid that will run out. Cuts in spending also played a major role in balancing this year's budget. But relying too heavily on cuts will not meet today's needs in Maryland and will hurt the state's ability to position itself for future growth.

Maryland has within its reach a number of reasonable revenue options that would be a productive part of the balanced approach needed to preserve public investments in education, health, public safety, a good quality of life and a decent standard of living for all Marylanders.

SB 717, which increases the tax rate on alcoholic beverages, represents one of these options. Raising the alcohol tax has the added benefit of reducing consumption of alcoholic beverages and therefore the harmful health and social effects of over-consumption of alcohol. The strategy of increasing price to reduce over-consumption is particularly important for teens.

Maryland has among the lowest taxes on alcoholic beverages of any state. The tax on liquor of \$1.50 a gallon – about 30 cents for a .75 liter bottle -- has not changed since 1955. The median among all states is \$3.75 per gallon. The tax on beer and wine was last increased in 1972. Wine is taxed at 40 cents per gallon --about a dime for a one liter bottle -- and beer at nine cents per gallon -- about a nickel on a six-pack. The national medians are 69 cents for wine and 18 cents for beer.

Senate Bill 717 would increase Maryland's tax rates enough to reduce consumption and significantly reduce alcohol-related illness, drunk driving, and alcohol-related violence. Still, the tax would amount to only about ten to twelve cents per drink. The percentage increase in prices of alcoholic beverages would be in the range of 6.9% to 8.3%. This should not represent an onerous cost for moderate adult consumers of alcohol.

At the same time, the measure would raise over \$200 million in annual revenue – even after accounting for decreased consumption. This revenue will be recycled into Maryland's economy to provide healthcare, treatment and prevention services.

SB 717 dedicates the revenue from the increased alcoholic beverage taxes to healthcare, mental health, addiction treatment and prevention as well as developmental disability services. The best fiscal policy practice would be to continue to make the revenue from alcoholic beverage taxes available for general fund needs.

However, in this case, SB 717's proposal to dedicate funds is reasonable. Dedicated fund sources should have a logical relationship with their uses. There is certainly a well-established connection between health care needs, mental illness, substance abuse, and alcohol consumption. Additional funds for these functions are needed desperately. Therefore dedicating the revenues to those functions is a sound policy option. The Maryland Budget and Tax Policy Institute will support SB 717 either as proposed, or with an amendment to deposit the proceeds into the general fund.

For these reasons, the Maryland Budget and Tax Policy Institute requests the Budget and Taxation Committee to approve a favorable report for Senate Bill 717.