



March 17, 2020

Dear Member of the Maryland General Assembly:

On behalf of National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization, I write to express our strong opposition to the recently amended HB 732. This misguided legislation contains numerous tax hikes on digital advertising, cigarettes, and other tobacco products. We hope you will stand with Maryland taxpayers and small businesses by rejecting these added tax burdens.

As you may be aware, HB 732 was amended to incorporate language from SB2/HB0695, which creates a new tax on digital advertising revenues of companies, with tax rates reaching as high as 10 percent of gross advertising revenues. The purpose of this scheme is to tax large digital advertising companies, but the true burden will ultimately fall on small businesses and consumers in Maryland. Advertisers will inevitably raise the price of advertisements, which means Maryland businesses will choose to no longer advertise and risk losing new customers, or pay the higher cost. If the latter occurs, the retailer will likely pass the added cost onto their consumers through higher prices. Additionally, these higher costs could force Maryland employers to consider passing the tax to their employees in the form of fewer job opportunities, or by limiting hours, benefits, or wages.

Secondly, HB 732 would double Maryland's cigarette tax from \$2 per pack to \$4 per pack. For a pack-a-day user, they will need to pay an additional \$730 annually to cover this added tax burden. While it is true that cigarette tax increases usually correspond with a short-term bump in revenue, after a few years revenue drops precipitously due to smuggling or declines in smoking rates. In fact, a 2013 study from NTU's research arm, National Taxpayers Union Foundation, found 7 out of every 10 state-level tobacco tax hikes enacted between 2001 and 2011 resulted in lower-than-anticipated revenues. All too often, this meant additional levies were soon to follow. Our study also found that two-thirds of these tax hikes were followed by additional hikes within two years.

Finally, HB 732 triples the other vapor products tax rate to 86 percent of the wholesale price. Subjecting vapor and e-cigarettes to the same state regulation and tax treatment would be an ill-advised approach to addressing public health concerns for tobacco users. Vapor products contain no tobacco; they contain nicotine without the harmful chemicals found in traditional tobacco products. In fact, vapor products reduce the harm associated with smoking by as much as 95 percent, and can be as much as twice as effective as gum or patches to help users quit.

If HB 732 is approved and an 86 percent tax rate is applied to vapor products, it would directly harm many Marylanders, particularly lower and middle-income tobacco users who wish to switch to products that may improve their health and well-being.

Based on these concerns, we hope you reject HB 732 and remove the bill from further consideration. We appreciate your consideration of these views and look forward to working with you in other ways to improve Maryland's economic and fiscal prospects.

Sincerely,

Thomas Aiello
Policy and Government Affairs Manager