

No Time for Tax Increases in Massachusetts

New Sales Tax Will Destroy Jobs

The proposal to add state sales tax onto the already high tax burden borne by the beverage alcohol industry is a poorly conceived idea that will harm the already reeling hospitality industry. Forcing the industry to pay sales taxes would actually cause an estimated loss of over 800 jobs at a time when the economy has already in recession.

Beverage alcohol already overtaxed.

- The proposal to add state sales tax to the list of taxes already paid by the beverage alcohol industry comes despite the fact that, by any measure, beverage alcohol is already overtaxed. For a typical bottle of distilled spirits in Massachusetts, 23% of the retail price goes to pay direct taxes and fees. When all taxes are considered around 50% of the purchase price goes toward taxes.
- In addition to payroll taxes, state income taxes and property taxes, beverage alcohol proprietors also must pay a special excise tax and licensing fees (a lump sum tax).
- Additionally, when spirits, wine and beer are purchased in restaurants and taverns, state sales tax is already charged *plus* a special gross receipts tax applicable to beverage alcohol only.
- Over 50% of beverage alcohol retail revenues are generated through on-premise establishments. Thus, between the state sales tax and the special alcohol gross receipts tax, the typical beverage alcohol purchase is *already taxed above the level of other products sold in the state* – and that does not include the excise tax!
- The proposed tax increase would raise beverage alcohol prices in Massachusetts by 5%.



Higher taxes destroy jobs

- While the hospitality industry can be an engine of growth, during recessions it is impacted disproportionately. As people look to reduce expenses, entertainment is one of the first areas where cut backs are made. In 2008, leisure and hospitality employment declined at a 2% rate – much faster than the 1.3% rate for other non-farm employment.
- The power to tax is the power to destroy. High tax rates destroy the incentive to invest and work – destroying economic growth and job creation. With the economy slowing dramatically, destructive tax increases are ill-advised.
- The proposal to add sales tax to the industry's already high tax burden is expected to reduce state economic activity by over \$85 million – eliminating some 800 jobs in the process to an industry that is already disproportionately impacted by the recession.

Beverage alcohol taxes are not user fees, but discriminatory taxes

- Some argue that beverage alcohol taxes are “user fees” imposed to cover perceived social costs of alcohol abuse and the programs necessary for alcohol abusers.
- However, in a true user fee the people who pay the fee also receive the benefits of the government provided programs being paid for. Payment of the tax is directly proportional to ones use of the government service. The classic example of a user fee is the gasoline excise tax. Gasoline excise tax payments are proportional to the amount that you drive and the use of government provided roadways.
- However, there are no negative social costs associated with normal moderate consumption of beverage alcohol, and 90-95% of legal age adults who enjoy beverage alcohol fall into this category.
- Since few of the citizens paying the tax would derive any benefit, beverage alcohol taxes are not user fees at all; they are simply highly targeted, discriminatory taxes. Without the discredited user fee rationale, there is no social or economic reason that the tax burden on beverage alcohol should be higher than any other product.

High taxes do not act as a deterrent to abusive drinking

- In addition to failing the user fee test, beverage alcohol taxes do not appear to act as a deterrent to abusive drinking. Raising taxes on beverage alcohol only

serves to penalize responsible beverage alcohol consumers and does not deter abusers for whom taxes are of little concern. The National Institute on Alcohol Abuse and Alcoholism, the government's lead agency on alcohol issues, reported in its January 2001 issue of *Alcohol Alert* that research suggests the heaviest-drinking 5 percent of drinkers do not reduce their consumption significantly in response to price increases, unlike drinkers who consume alcohol at lower levels.