SB 1045 - Sales and Use Tax - Taxable Business Services - Alterations
Senate Budget & Tax Committee
March 12, 2025
Legislative Position: UNFAVORABLE

Chair Guzzone and members of the Committee,

The Maryland Association of Certified Public Accountants (MACPA) proudly represents 9,000 CPAs across the state. We strongly oppose Senate Bill 1045, which seeks to impose a 2.5% sales tax on business-to-business (B2B) professional services, including accounting, tax preparation, financial planning, and consulting. This proposal is not only harmful to Maryland businesses but also represents poor tax policy with significant economic consequences.

- Small businesses will be disproportionately impacted, as they must hire outside professionals who are required to charge sales tax, while larger businesses can rely on in-house employees to perform these functions tax-free.

- Maryland will face a competitive disadvantage since neighboring states do not impose sales tax on these services. Clients will seek out-of-state professionals, reducing the economic impact generated by Maryland's professional services firms.

- This tax amounts to a **"tax on taxes"** — a sales tax imposed on clients simply for seeking professional assistance in complying with tax laws and other statutory and regulatory requirements.

- A sales tax on professional services would create **significant legal and administrative challenges** for providers, clients, and the Comptroller's Office. The complexities of multi-state providers, multi-state customers, and electronic communication would result in excessive compliance costs and administrative burdens for all parties.

- Taxing business purchases is widely recognized as **bad tax policy** because of **tax pyramiding**, in which taxes accumulate at multiple stages of production, increasing costs for businesses and consumers.

- Other states have attempted sales taxes on professional services only to repeal them shortly thereafter due to widespread opposition and unworkable implementation.

I. Small businesses will bear the biggest burden

Unlike large corporations with in-house employees handling finance, tax, and consulting functions, small businesses must rely on outside professionals to stay compliant with complex legal requirements. As a result, SB 1045 disproportionately impacts small businesses by making essential professional services more expensive, leading to:

- **Higher operating costs**, which limit growth, hiring, and investment.
- **A competitive disadvantage** for Maryland-based entrepreneurs compared to those in Virginia, Delaware, and Pennsylvania, where these services are not taxed — creating an incentive for businesses to relocate or expand elsewhere.

II. Maryland's competitiveness at risk

Businesses today can easily access accounting, consulting, and other professional services from firms across state lines. If Maryland imposes a sales tax on these services, clients will take their business elsewhere, leading to:

- **Lost business for Maryland-based CPAs and other service providers,** generating far less revenue than SB 1045 anticipates.
- **A decline in state and local income tax collections** from Maryland CPAs and other professionals.
- **A weakened economy** at a time when retaining and attracting businesses should be a top priority.

III. Sales tax on CPAs' services is a tax on compliance

CPAs assist clients in complying with numerous legal requirements, including filing tax returns and preparing financial statements necessary for registrations. SB 1045 would increase the cost of compliance by taxing these essential professional services, forcing clients to choose between paying higher fees or attempting compliance on their own — risking errors and penalties. Imposing a sales tax simply for following the law contradicts Maryland's stated goal of fostering a business-friendly environment

IV. Administrative and legal chaos

Accounting and consulting services are often provided electronically or across state lines by multistate firms serving clients with operations in multiple jurisdictions. Determining where these professional services are taxable would create a logistical nightmare for businesses and Maryland's already overstretched Comptroller's Office. Unlike physical goods, professional services lack a clear point of performance or delivery, making compliance costly and enforcement difficult.

Maryland's reputation has already suffered from complications with PTE return processing, the complexities of sales tax on digital products like software, and the very rocky roll out of the new MarylandTaxConnect tax return filing system. Even with clear definitions and detailed rules — which would take months to develop — a sales tax on professional services would impose a significant administrative burden on CPAs, their clients, and the Comptroller's staff.

V. Taxing business purchases violates fundamental tax principles

Economic experts and tax policy organizations consistently agree that sales taxes should not apply to business inputs — goods and services purchased to support operations. SB 1045 would result in tax pyramiding, in which taxes compound at multiple stages of production, leading to:

- Higher costs for businesses, which will ultimately be passed on to consumers.

- Competitive disadvantages for Maryland businesses compared to those in neighboring states without such a tax.

- Market distortions, as larger corporations with in-house accounting and legal teams avoid the tax, while small businesses bear the burden.

VI. Other States—and Maryland—Have Tried and Failed

Maryland would not be the first state to attempt a tax on professional services. History has shown that such taxes are unworkable and harmful:

- **Florida (1987):** Lawmakers repealed the tax within six months due to widespread business opposition and administrative chaos.
- **Michigan (2007):** Their tax on services lasted less than a day before being repealed after immediate backlash.
- **Utah (2019) & Nebraska (2024):** Both states abandoned similar proposals due to overwhelming opposition from business owners and economic experts.
- **Maryland (2007-2008):** The state enacted a sales tax on computer services in November 2007 but swiftly repealed it in March 2008 following intense taxpayer opposition.

Maryland's own history proves that taxing professional services is a failed approach. Rather than repeating past mistakes, lawmakers should focus on policies that encourage economic growth and maintain the state's competitive edge.

A tax on compliance is bad policy

Senate Bill 1045 is flawed, unworkable, and economically harmful. It would raise costs for small businesses, create compliance challenges, drive businesses out of Maryland, and fail to generate the intended revenue. Rather than imposing new financial burdens on the businesses that fuel Maryland's economy, we urge lawmakers to prioritize policies that foster growth and maintain the state's economic competitiveness.

For these reasons, the **Maryland Association of CPAs urges an UNFAVORABLE report on SB 1045.**

Thank you for your consideration.

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