Senate Bill 1045

Date: March 12, 2025
Committee: Senate Budget and Taxation
Position: Unfavorable

Founded in 1968, the Maryland Chamber of Commerce is the leading voice for business in Maryland. We are a statewide coalition of more than 7,000 members and federated partners working to develop and promote strong public policy that ensures sustained economic health and growth for Maryland businesses, employees, and families.

Senate Bill 1045 (SB 1045) would create a new 2.5% sales tax on a wide range of business-to-business services, including accounting, consulting, employee placement, landscaping, tax preparation, and repair services – just to name a few. While the fiscal note has not been released as of this writing, it is estimated this bill will have over a $1 billion economic impact on businesses that both provide and rely on these essential services.

No other state has considered or implemented a sales tax expansion exclusively targeting business-to-business services. Implementing a business-to-business service tax represents a short-term fix that would create significant long-term problems for Maryland's economy and competitiveness. There are several specific reasons why this legislation would harm Maryland businesses:

Disproportionate Impact on Small Businesses
Small businesses operate on thin margins and lack the resources to absorb new taxes or bring services in-house. Small businesses rely heavily on outsourced professional services for accounting, technology support, and other essential functions. This tax would add thousands in new annual costs for businesses already struggling with economic pressures, potentially forcing difficult choices between raising prices, reducing staff, or cutting investments in growth.

This legislation Will Result in Pyramiding Taxes
Taxing services increases the potential for services and goods to be taxed more than once, which leads to higher consumer costs.

Competitive Disadvantage in the Region
This tax would make Maryland an outlier among our neighboring states. Virginia and Delaware do not impose similar taxes on business services, creating an immediate competitive disadvantage for Maryland businesses. For businesses located near state borders, this tax creates a strong incentive to seek service providers across state lines, while also encouraging Maryland-based service businesses to relocate to neighboring states.

Administrative Burden and Compliance Costs
Beyond the direct tax cost, this legislation would create significant administrative burdens for

businesses that must track, collect, and remit this new tax. For many small businesses, this means additional accounting costs and time spent on compliance rather than growing their business.

Dangerous Precedent for Future Taxation
Once established, this tax structure could easily expand to additional service categories or increase in rate. While today's proposal targets specific services at 2.5%, there is legitimate concern that future budget shortfalls could lead to rate increases or expansion to other essential business services like legal services.

Cascading Tax Effect
Unlike a traditional sales tax on final consumption, this B2B tax creates a "tax on tax" scenario where services taxed at various stages of production ultimately result in higher costs passed on to Maryland consumers. This cascading effect makes the true impact much greater than the nominal 2.5% rate suggests.

Economic analyses from other states that have considered measures to expand their sales tax have demonstrated that taxing business inputs leads to higher consumer prices, reduced economic competitiveness, and increased cost of doing business – ultimately harming the very individuals these policies seek to protect. Additionally, states with more competitive tax policies are better positioned to attract and retain workers, a crucial factor for Maryland as it seeks to strengthen its workforce and economic standing.

Rather than implementing policies that discourage investment and growth, Maryland should prioritize approaches that foster business expansion and economic development. A thriving business community naturally generates increased tax revenue through job creation and economic activity, strengthening the state's fiscal health in a long-term and sustainable way.

There is widespread opposition to this bill from many segments of the business community, including retailers, transportation, financial planning, tech, hotels, and many more. Representatives from the small business community are equally concerned about the impact that this would have on their ability to create jobs, grow and thrive in Maryland.

For these reasons, the Maryland Chamber of Commerce respectfully requests an **unfavorable report on SB 1045**.