

Real Property Section

To: Budget and Taxation Committee (Senate)

From: MSBA Real Property Section

Date: March 10, 2025 [Hearing Date March 12, 2025]

Subject: **SB 1045 – Sales and Use Tax - Taxable Business Services - Alterations**

Position: **Unfavorable**

The Real Property Section of the Maryland State Bar Association (MSBA) **opposes SB 1045 – Sales and Use Tax - Taxable Business Services - Alterations**. The bill seeks to extend the scope of Maryland’s Sales and Use Tax to apply to many services that have, historically, never been subject to such tax. Broadly speaking, this change will add a 2.5% tax on business-to-business professional services. We join in the opposition filed by the MSBA’s Tax Council and the MSBA.

Maryland already has some of the highest closing costs in the nation. A recent article in the Baltimore Sun, “Transfer taxes in Md. are fifth highest in U.S., study finds”.

<https://www.baltimoresun.com/2003/01/19/transfer-taxes-in-md-are-fifth-highest-in-us-study-finds/>

Other studies have shown Maryland as the third highest. This is mostly due to Maryland’s Recordation and Transfer tax scheme applicable to real estate transactions. Consumers in Maryland must pay a combination of State Transfer Taxes, County Transfer Taxes and Maryland Recordation Taxes in order to effect and record their purchase or refinance transactions. Adding additional taxes for services provided as part of the closing process would only serve to make it more difficult for first time homebuyers to achieve the American dream. It would also cause existing homeowners to rethink plans to move which in turn affects the supply of housing which in turn leads to higher prices for those that are for sale.

Real estate sales, financing, title insurance, abstracting, surveying, and settlements, are service industries. While the provisions of SB 1045 are not clear, it is possible that the tax will apply to virtually every step taken in the overall home sale and financing process: the title searcher’s service in preparing a title abstract, the title insurer’s services provided to its agents; the closing services provided by the title agents; the recording services to have documents placed on record; the surveyor who prepares a location drawing for the buyer; and, the accountant who keeps track of it all as well as the payroll services and other bookkeeping services and

marketing services.. If the buyer or seller elect to be represented by counsel, attorneys' services could also be taxed. Each of these will not only directly impact consumers through the tax, itself, but the administrative costs of collecting and remitting the tax will add yet another layer of costs, ultimately passed onto the consumer. Every dollar of additional tax or fee on the purchase of real estate makes home buying that much more difficult for the average Maryland Resident.

The changes proposed warrant further study due to their potential social, economic and regulatory impact. In the past, this body has established commissions to study issues far less sweeping and life changing than the measures proposed under this bill. For these reasons we oppose SB 1045 and request that you issue an **unfavorable** report.

For these reasons, the Real Property Section of the MSBA **opposes Senate Bill 1045**. Thank you for your consideration.