

Senate Bill 1045

Date: March 10, 2025

Committee: Senate Budget and Taxation Committee

Position: Opposed

Dear Chair Guzzone and Members of the Committee,

As a local small business owner, I write to express strong opposition to Senate Bill 1045, which would expand Maryland's sales and use tax to essential business-to-business (B2B) services. This proposal would create a new 2.5% tax on a wide range of services that businesses rely on daily to operate, including accounting, IT support, consulting, and many others.

While we understand Maryland faces budget challenges, implementing a B2B 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. Unlike large corporations, 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.

In the past couple of years, Maryland has already previously passed plenty of legislation to increase taxation, labor wages, or other pressures on small businesses. This bill might just be the final nail in the coffin.

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 my business and industry, 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.

We've recently had to raise rates more than once for our industry due to employment costs, overhead costs, and technology updates and costs.

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.

This means thousands of dollars spent on updating invoice configurations, websites, contracts, newsletters, and every pricing or marketing material imaginable. It's not just a "sticker" update—it's completely changing how a small business operates. And most of the time, they don't have the resources to do that.

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, real estate services, or healthcare.

This is dangerous. As we currently struggle with rising electricity costs, eggs, rent, and other challenges that every Marylander is facing right now—the last thing we need is to put MD small businesses at a disadvantage, and create pathways to make even other essential services such as real estate and healthcare even more inaccessible. That's putting ALL Marylanders at a disadvantage.

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.

This additional tax burden will create business failures for all. For the business collecting tax—higher pricing will lead to less revenue and jobs. For the business needing the essential service—they may not be able to comply with the new pricing, therefore leading to gaps in their own business, putting them in vulnerable positions for bad accounting, bad IT, and other needed functions. Both the business and consumer will suffer.

While we support efforts to ensure Maryland's fiscal stability, the most effective approach to address budget challenges is to focus on policies that encourage business growth and economic expansion. A thriving business community naturally generates increased tax revenue through job creation and economic activity.

I urge you to and the members of the General Assembly to carefully evaluate the implications of this legislation, reject SB 1045, and advocate for policies that support a thriving business environment in our state.

Sincerely,

Ada Portillo
Owner
Ada Portillo Agency