

March 10, 2025

Maryland General Assembly
Senate Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, Maryland 21401

RE: SB 1054 Sales and Use Tax - Taxable Business Services - Alterations

Honorable Chair Guzzone, Vice Chair Rosapepe, and Committee members,

My name is Christine V. Walters, J.D., MAS, SHRM-SCP, SPHR. I am an attorney licensed to practice law in the State of Maryland. I am a sole proprietor doing business as FiveL Company, providing human resources and employment law consulting services since 2002.

This week I and so many others will drive more than 100 miles and wait for several hours to talk to you and your colleagues in the House Ways and Means Committee for two minutes each (or less) to respectfully request an unfavorable report on this bill. Let me tell you why I have chosen to do so.

Many small businesses and sole proprietorships operate on a narrow margin that is subject to market volatility. In 2020, my revenue decreased by 40% over the prior year after COVID was declared a pandemic. In just the first two months of this calendar year, my revenue is down 60% compared to the same time last year. This is due to some of the federal Executive Orders and stop work orders that have impacted many of my small government contractor clients who have had to postpone or cancel services I provide to them.

Now, in addition to those fiscal challenges, this bill would require me to:

1. charge my clients who already face fiscal challenges, reductions in force, furloughs, and more an additional 2.5%;
2. be subject to pay this same tax as a recipient for the services I receive from most of my B2B service providers;
3. figure out which of my clients operate under one of the listed NAICS codes and create a way to track them in my bookkeeping system so I can apply the 2.5% tax to them but not to other clients who receive the exact same service but operate under a different NAICS code;
4. collect those taxes; and
5. send them to the state, I assume quarterly, and I suspect with some type of itemized accounting.

As of this writing (approximately 11:30 a.m. Monday morning), the fiscal note for this bill has not been published. I suspect when it is, it will read that the small business impact will be “meaningful.” For this small proprietor, I can tell you it will be.

I ask you to PLEASE not impose this administrative burden on me and so many of your constituents. Since I started my practice 22 years ago, I have increased my hourly rate just three times – three times in 22 years! When my expenses increase, my first response is NOT to pass that onto my clients to increase more revenue. That is not even my second response. I assess where I can decrease expenses, and I do so. I expect my State to do the same.

For example, I understand the Governor's budget increases funding for State employee wages and benefits by \$560 million. That seems to fly in the face of employees and employers in Maryland's private sector who are facing reductions in force, layoffs, and furloughs.

I also have some technical questions or concerns related to the bill. The bill expands the definition of a "taxable service" to include "THE FOLLOWING SERVICES IF BOTH THE PROVIDER OF THE SERVICE AND THE BUYER ARE BUSINESS ENTITIES ..." and then lists 16 business services and one or more corresponding NAICS codes. The last bullet is preceded by "OR". As written, I find the following unclear.

- Must both entities operate under the same NAICS code listed or must both entities operate under any one of the NAICS listed code? I assume the latter as the former would be unlikely or at least less frequent.
- Many businesses operate under more than one NAICS code. How does such a business determine if it is covered under this proposal? Must more than 50% of the entity's business operations operate under a covered NAICS code or is it covered if it operates under any of the listed NAICS codes in any amount? If the former, how is that percentage to be measured or determined (by revenue? by budget allocation? by number of employees?) and who is responsible for doing so?
- Many businesses provide the same service to individual consumers as well as business customers. If that is correct, then this bill requires a covered business to develop a way to track for each service it offers, one of three codes: one for a service when it is provided to a consumer to whom this tax would not apply; a second for the same service when it is provided to a business operating under an NAICS code to which the tax would not apply; and a third for the same service when it is provided to a business operating under an NAICS code to which the tax would apply.
- What if my client pays late and I have not received payment for the tax at the time I am to pay it to the State, am I to advance that money? If so, will the State reimburse me or provide a tax credit for monies I am unable to collect?

For these reasons and more, I ask that you give this bill an unfavorable report. Thank you.

Respectfully submitted,

Christine Walters

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