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 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.

I understand Maryland faces budget challenges, but implementing a B2B service tax represents a short-term fix that would create significant long-term problems for Maryland's economy and competitiveness. Attempting to reduce the shortfall created by overspending through additional taxes is NOT a solution; in fact the ripple effects will likely create further shortfalls. Curbing spending is the appropriate answer. This administration inherited an outstanding positive surplus, but with poor planning and overzealous spending, it has created a problem that will NOT be corrected simply by adding another tax to the very persons and businesses that provide solutions, jobs, and revenues in the state.

There are several specific reasons why this legislation would harm Maryland businesses:

Disproportionate Impact on Small Businesses

Small businesses 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, cutting investments in growth, or even relocating or purchasing services from outside of Maryland.

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, this proposed tax creates a strong incentive to seek service providers across state lines, while also encouraging Maryland-based service businesses to relocate to neighboring states. I will certainly consider these alternatives for my business.

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 operating and even attempting to grow 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, real estate services, or healthcare.

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.

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, and curb spending. 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 HB 1554, and advocate for policies that support a thriving business environment in Maryland.

Sincerely,

Leanne L. Stewart

Owner – Stewart Accounting