



March 10, 2025

The Hon. Guy Guzzone
Chair, Senate Budget and Taxation Committion
3 West Miller Senate Office Building
Annapolis, MD 21401

**RE: SB 1045 SALES AND USE TAX – TAXABLE BUSINESS SERVICES –
ALTERATIONS - OPPOSITION**

Dear Chair Guzzone and Members of the Budget and Taxation Committee,

I am writing on behalf of the Maryland Government Relations Association (MGRA) to express our strong opposition to Senate Bill 1045, titled “Sales and Use Tax – Taxable Business Services – Alterations.” While we understand the state’s need to explore avenues for revenue generation, we believe that this bill, which proposes a 2.5% sales tax on a broad range of business-to-business (B2B) services, is misguided and poses significant risks to Maryland’s economic health.

Negative Impact on Maryland Businesses

The imposition of a sales tax on essential B2B services—including accounting, IT support, consulting, marketing, and other professional services—would disproportionately affect businesses operating within Maryland. Small businesses, in particular, would bear the brunt of this tax, as they often lack the internal resources to manage these functions and thus rely heavily on external service providers. This additional financial burden could lead to increased operational costs, reduced competitiveness, and, in some cases, business closures. The Maryland Chamber of Commerce has highlighted these concerns, noting that such a tax could be a short-term fix but a long-term problem for the state’s economy.

Economic Competitiveness and Business Relocation

Implementing a tax on B2B services could make Maryland less attractive to businesses, especially when neighboring states do not impose similar taxes. This disparity could incentivize companies to relocate to states with more favorable tax environments, resulting in job losses and a diminished tax base for Maryland. The potential for businesses to move operations out of state poses a significant threat to Maryland’s economic vitality.

Tax Pyramiding and Increased Consumer Costs

Taxing B2B services can lead to “tax pyramiding,” where a tax is applied multiple times throughout the production process, ultimately increasing the final cost of goods and services to consumers. This

cascading effect can make Maryland-produced goods and services more expensive, reducing their competitiveness in both national and international markets. Consumers may face higher prices, which could dampen demand and negatively impact the overall economy.

Administrative and Compliance Challenges

The proposed tax would introduce additional complexities in tax administration and compliance for both businesses and the state. Businesses would need to implement new accounting systems to track taxable services accurately, incurring additional costs. The state would also need to allocate resources to enforce compliance, which could offset the anticipated revenue gains from the tax.

Unintended Consequences for Professional Services

Professional services such as legal, financial, and consulting are critical to the functioning of businesses across all sectors. Taxing these services could discourage businesses from seeking necessary expertise, leading to suboptimal decision-making and potentially stifling innovation and growth. Moreover, service providers may pass on the tax to their clients, further increasing operational costs for businesses.

Recommendation

We urge the committee to reconsider the implementation of Senate Bill 1045. Instead of imposing a tax that could have far-reaching negative consequences, we recommend exploring alternative revenue-generating measures that do not disproportionately impact the business community. Engaging with stakeholders to identify more equitable solutions would be a prudent approach to addressing the state's fiscal challenges without hindering economic growth.

In conclusion, while we acknowledge the state's need to address budgetary concerns, Senate Bill 1045 is not the appropriate solution. The potential harm to Maryland's businesses, economy, and overall competitiveness outweighs the anticipated benefits of this tax. We respectfully request that the committee oppose this bill and consider more balanced approaches to revenue generation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Eddie L. Pounds", with a stylized flourish at the end.

Eddie L. Pounds
President