

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 pay for IT support from a local company. This bill would have them charge me 2.5% tax on the monthly service. I would then pass that cost on to my clients. Then, I would be required to pay a 2.5% tax on the services I provide to my clients. So, in essence, I would be increasing my fees by 5% on top of my normal yearly increase. I pride myself in keeping my prices low compared to the bigger CPA firms but, this tax would dramatically increase my prices to the extent that I would lose clients. This tax would price me out of the market and possibly force me into early retirement resulting in 1 less business in Maryland.

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

My business operates on thin margins, and I lack the resources to absorb new taxes or bring services in-house. With all the regulations that CPA's must follow, bringing the IT support inhouse is not a solution. IT is too complex today for a CPA to be dabbling in IT support. Unlike large corporations that can hire a full-time dedicated IT person, small businesses rely heavily on outsourced professional services for IT and technical 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.

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 tax creates a strong incentive to seek service providers across state lines, while also encouraging Maryland-based service businesses to relocate to neighboring states.

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.

For example, look at the real estate taxes the counties collect. Every time the county needs more money, they raise real estate taxes.

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.

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,

Suzanne Paholski, Owner
Suzanne S Paholski, CPA