

Senate Bill 1045

Date: March 10, 2025

Committee: Senate Budget and Taxation Committee

Position: Opposed

Dear Chair Guzzone and Members of the Committee,

I own and manage a small business, Quercus, Incorporated, which serves to offer management services to a number of Maryland non-profit organizations. I write to express strong opposition to Senate Bill 1045. The burden this bill places on the clients I serve is one significant issue. The second is the more tax I have to pay to run my small business, the fewer funds I have to offer wage increases to my employees.

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.

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. My business services, which for the most part are managerial and administrative, can be completed by other companies, either virtually or physically in another state, threatening the viability and continuity of my business. In addition, if I have to pay more for the services required to run my business, then I will not be offering salary increases for my employees. You can't have it both ways. There are only so many dollars available. **Employee wages will be hurt by employers' increased burden to pay sales taxes.**

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.

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.

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,

Vanessa A. Finney

President

Quercus, Inc.