



March 10, 2025

The Honorable Vanessa E. Atterbeary, Esq., Chairwoman
House Ways and Means Committee
Taylor House Office Building, Room 131
6 Bladen St.
Annapolis, MD 21401

RE: HB1554 – Sales and Use Tax – Taxable Business Services – Alterations
Position: Opposed

Dear Chairwoman Atterbeary and Committee Members,

The BWI Business Partnership (The Partnership) respectfully opposes House Bill 1554, which would expand Maryland's sales and use tax to essential business-to-business (B2B) services. The Partnership is a 501(c)(4) nonprofit and a small business. We provide important services to the greater BWI, Ft. Meade and Arundel Mills communities, including (but not limited to) operating shuttle bus services for local workers and landscaping services around important job centers. The Partnership employs three people full-time and one person part-time and relies on local contractors to assist with the foregoing services and our day-to-day operations.

HB 1554 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 including our small non-profit organization comprised of governmental organizations, private businesses, and academic institutions, advocating for strong transportation policy and initiatives, driving sustainable economic and workforce development, and facilitating meaningful strategic relationships to the growth and development of the BWI and Central Maryland Region. This proposal, as currently drafted, would cost our small nonprofit tens-of-thousands of dollars in additional costs.

The Partnership respectfully suggests amending the bill on Page 4, at Line 22 by inserting the following at the end of the sentence: “, UNLESS EITHER BUSINESS IS A NONPROFIT ORGANIZATION AND EMPLOYS FEWER THAN FIVE INDIVIDUALS ON A FULL-TIME BASIS”. That would include many small nonprofit organizations with designations of 501c3, 501c4 and 501c6 as defined under existing Maryland law (*see e.g.*, Maryland State Finance and Procurement Code § 2-208(a)(3) (2024)).

While we understand Maryland faces budget challenges, implementing a B2B service tax would harm Maryland's small businesses and nonprofits and our customers in several ways.

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. For The Partnership's members located near state borders, 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.

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.

The BWI Business Partnership urges 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 our state.

Sincerely,

Gina Stewart

President

