



BALSAMO, LUTTERS, RENNA & ROSENSTEEL, P.A.

Certified Public Accountants & Consultants

House Bill 1554

Date: March 10, 2025

Committee: House Ways and Means Committee

Position: Opposed

Dear Chairwoman Atterbeary and Members of the Committee,

As a local business owner in Maryland, I write to express strong opposition to House Bill 1554, 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.

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

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 my firm, located less than 30 minutes from the Mason Dixon Line, this tax creates a strong incentive for my clients to seek service providers in either Pennsylvania or Delaware, while also encouraging some Maryland-based service businesses to relocate to neighboring states.

The Legislature tends to ignore the fact that taxpayers and businesses DO pay attention to tax burdens, including making decisions as to where to locate. It's not practical for me at this late stage in my career to consider moving my firm at this time, as I am now anticipating retirement in the relatively near term. But in response to overall costs of living **including particularly** the relative income tax burden, when I had occasion about 13 years ago to move my residence toward the north, I moved a few blocks NORTH of the Mason Dixon line into York County, PA rather than south of the line in northern Harford County, a decision prompted by both housing costs and tax burdens. The Legislature needs to bear in mind that taxpayers can and sometimes do vote by moving. When that happens, revenue and sometimes jobs and business activity is lost permanently.

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 small entities, this could be a hugely disproportionate fraction of the tax burden itself. 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 HB 1554, and advocate for policies that support a thriving business environment in our state.

Sincerely,

A handwritten signature in blue ink, reading "Brian M. Lutters CPA". The signature is fluid and cursive, with the initials "B.M." and "CPA" clearly visible.

Brian M. Lutters, CPA

Shareholder

Balsamo, Lutters, Renna & Rosensteel, PA