Testimony of Nicholas Grueninger, CPA
Opposition to HB1554 – Sales and Use Tax on Business Services
House Ways & Means Committee
March 12, 2025

Legislative Position: UNFAVORABLE

Chair Atterbeary and Members of the Committee,

My name is Nicholas Grueninger, and I am a Certified Public Accountant (CPA) with over 14 years of experience in the accounting profession. I work with thousands of small businesses across each of Maryland's counties, providing essential accounting and financial services that help them navigate complex tax and regulatory environments. I strongly oppose HB1554, which seeks to impose a 2.5% sales tax on business-to-business (B2B) professional services, including accounting, financial planning, and consulting services. This bill will have significant negative consequences for Maryland businesses, professionals, and the broader state economy.

A Competitive Disadvantage for Maryland Businesses

The vast majority of Maryland's population and businesses are within an hour or less of states that do not impose such a tax. By implementing this tax, Maryland will place its businesses at a distinct competitive disadvantage. Companies will seek professional services in neighboring states, where they can avoid the additional tax burden. Given that many accounting services are now provided virtually, businesses will have little incentive to retain Maryland-based service providers when they can access the same expertise from tax-free jurisdictions just across the border.

Economic Impact and Additional Financial Burden

Taxes on businesses ultimately get passed down to the individual. Over the past five years, Maryland businesses and residents have faced extreme cost increases across numerous sectors. Additionally, recent federal budget cuts have significantly impacted Maryland due to our proximity to Washington, D.C., and the high number of federal contractors and employees in the state. Imposing a tax on essential business services would only exacerbate these financial pressures and create further economic instability.

Maryland's Track Record of Tax Policy Challenges

Past tax policy changes in Maryland have demonstrated the risks of poorly implemented tax structures. The pass-through entity (PTE) tax, for example, was mishandled and created undue burdens in both its initial implementation year and subsequent years. The latter was due, in large part, to a high volume of inaccurate tax notices issued by the state, resulting in confusion and administrative costs for businesses and tax professionals. HB1554 risks repeating these same mistakes, further eroding confidence in Maryland's tax policy administration.

Higher Costs, Reduced Business Revenue, and Economic Decline

For my firm and many of my clients, this tax will increase operational costs. Some businesses may attempt to absorb the additional expense, impacting their bottom line, while others may have no choice but to pass it on to customers. Either way, Maryland businesses will suffer competitive disadvantages compared to those in states without this tax.

As businesses shift their service needs to providers outside of Maryland, we will see a decline in tax revenue over time, undermining any short-term gains the state hopes to achieve with this measure. The long-term impact will be a weakening of Maryland's economy, as businesses relocate or restructure to minimize their tax burden.

Conclusion: A Harmful and Short-Sighted Tax Policy

HB1554 is fundamentally flawed and will cause long-term harm to Maryland's economic growth and competitiveness. Instead of imposing additional financial burdens on businesses, lawmakers should focus on policies that promote economic expansion and job creation. For these reasons, I strongly urge the committee to issue an **UNFAVORABLE** report on HB1554.

Thank you for your time and consideration.

Nicholas Grueninger, CPA