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March 10, 2025

The Honorable Delegate Vanessa E. Atterbeary
Chair, Ways and Means Committee
130 Taylor House Office Building
131 Taylor House Office Building
Annapolis, Maryland 21401

Re: House Bill 1554
Sales and Use Tax – Taxable Business Services -- Alterations
Hearing Date: March 12, 2025
Position: Oppose

Dear Delegate Atterbeary and Committee Members:

This letter is submitted on behalf of the Maryland Legislative Action Committee (“MD-LAC”) of the Community Associations Institute (“CAI”). CAI represents individuals and professionals who reside in or work with condominiums, homeowners’ associations, and cooperatives throughout the State of Maryland.

MD-LAC opposes HB1554. This bill seeks to alter the definition of a “taxable price” and a “taxable service” by applying a sales and use tax for certain labor and services. If passed, this law would apply a sales and use tax from one business to another business in Maryland of 2.5%. The bill uses broad stroke service classifications such as “business management,” “maintenance,” and “trash disposal” – services commonly used by community associations across the state, which could potentially encompass community association property management, swimming pool management, trash and junk disposal, accounting services, IT and data processing services, web

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hosting, lobbying and marketing, financial planning, bookkeeping, accounting and tax preparation services, along with a myriad of maintenance-related services including heating, ventilation, and air conditioning (HVAC), boiler, roofing, façade, electrical, plumbing, locksmith, snow removal, road and sidewalk repairs, and security system maintenance and repairs, and a host of other services.

On average, 50% of a community association's budget is spent on maintenance, and so a community with a maintenance budget of \$1,500,000, for example, would incur an additional \$37,500 in tax expense to the association and its members. The negative impact this tax will have on condominium and homeowners' association budgets and the increased collections to pay for them would be staggering. And for some services where maintenance is to components (such as roads) that are private where other communities enjoy state-provided maintenance, the tax lacks reason – the association must expend funds to maintain a private component where the state affords no service but is enriched by taxing a business to business service.

This session has seen other bills that impact Maryland's more than 6,850 community associations, some of which are already struggling to operate in the face of numerous financial obligations including meeting reserve study and reserve funding requirements (current law is seeking a legislative change this session to allow associations more time to fully fund), but outside of trying to fund for maintenance, unpaid homeowner assessments, bankruptcies, foreclosures, building deficiencies, the escalating costs of maintaining aging buildings, weather-related problems and damage not eligible for insurance, equipment failures, rising inflation, the rising costs of necessary materials and services, and the rising cost of insurance due to catastrophic losses is already resulting in increased assessments – often in excess of 20% annually.

In addition, many of Maryland's condominium owners are first-time home buyers who have saved just enough to purchase their homes but who cannot keep up with escalating costs of condominium and/or homeowners' association fees year after year. Consider, too, that nearly 9,000 of Maryland's residents live in Leisure World, a 55+ community of predominantly fixed-income residents, while still other associations' residents are aging in place long after retirement. Additional expenses could force these older residents to sell their homes long before they are ready.

Further, we would ask that the Committee review the hard costs of a service tax. The combined tax for services used by one association in Odenton, for example, would be approximately \$40,000. Another large-scale association in Rockville, whose snow removal budget alone is \$550,000, would see a tax for that service of \$13,750 per year. Some associations would see their monthly assessments increase by more than \$400. For one 244-unit condominium with no amenities, the tax would be around \$11,000.

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Ultimately, many associations will be forced to re-evaluate or defer services in order to accommodate a substantial tax assessed for unavoidable services. Worse, long-term deferral of services most certainly would result in property deterioration, reduced property values, and a reduction in or elimination of services – and perhaps an inability to comply with statutory reserve funding requirements. Those associations that cannot avoid a necessary service would have to somehow add this tax to their annual budgets resulting in increases in condominium and association fees.

While MD-LAC understands the state's changing fiscal landscape, particularly the impact federal decisions are likely to have on the state, along with the \$3 billion budget deficit Maryland already finds itself in, we do not believe enough consideration has been given to the impact of this tax on our many residents, and the impact would be enormous and widespread: As of 2020, approximately 1,350,000 Marylanders lived in 515,000 homes in 6,850 community associations – nearly 25% of the state's residents. In an environment where Maryland's residents either will or have already received property tax increases of anywhere from 20% to 35%, this tax would simply compound those expenses and drive homeowners and homebuyers from our state.

Accordingly, MD-LAC respectfully requests that the Committee give HB1554 an **unfavorable** report.

We are available to answer any questions the Committee Members may have. Please feel free to contact Lisa Harris Jones, lobbyist for the MD-LAC, at 410-366-1500, or by e-mail at lisa.jones@mdlobbyist.com; Charlene Morazzani Hood, Assistant Treasurer of the MD-LAC at 410-654-4444, or via email at cmorazzani@residential-realty.com; or Vicki Caine, Chair of the MD-LAC, at 215-806-9143 or via email at vcaine1@gmail.com.

Sincerely,

Charlene Morazzani Hood

Charlene Morazzani Hood
Assistant Treasurer, CAI MD-LAC

Vicki Caine

Vicki Caine
Chair, CAI MD-LAC