

House Bill 1554

Sales and Use Tax - Taxable Business Services - Alterations

March 12, 2025

Position: **OPPOSE**

Madame Chair and Members of the Ways and Means Committee:

The Restaurant Association of Maryland strongly opposes House Bill 1554. This legislation would impose a 2.5 percent sales and use tax on many business-to-business (B2B) professional services. This tax would increase operating costs for many restaurants.

Most restaurants are small businesses with fewer than 50 employees. This means most restaurants must rely on outside professional services such as accounting, payroll, marketing, information technology, and other services that would be subject to the proposed tax. And our commercial cooking equipment, ventilation/hood systems, dishwashers/water heating systems, and refrigeration require ongoing maintenance and repairs (which would also be subject to this new tax), due to strict food safety/sanitation regulations.

Many restaurants are struggling to survive amid rising costs and lower customer traffic (still down from pre-pandemic levels). In the last 4 years, food costs for the average restaurant have increased 29 percent and labor costs have increased 31 percent. Occupancy and utility costs are also on the rise. With an average pre-tax profit margin of just 3 to 5 percent, higher costs force restaurants to increase menu prices to remain profitable. But increasing menu prices can drive away customers, which is why restaurant operators strive to remain affordable to the communities they serve. The proposed B2B tax on professional services will force restaurants to decide between menu price increases or other cost-cutting measures – both of which could negatively impact the customer dining experience.

The proposed B2B tax would also put Maryland restaurants at a competitive disadvantage with restaurants in neighboring states.

For these reasons, we oppose this legislation and respectfully request an unfavorable report.

Sincerely,



Melvin R. Thompson
Senior Vice President
Government Affairs and Public Policy