March 12, 2025

Ways and Means Committee
Room 130, House Office Building
Annapolis, Maryland 21401

<u>House Bill 1554- Sales and Use Tax - Taxable Business Services – Alterations: OPPOSE</u>

Chair Atterbeary, Vice Chair Wilkins, and Members of the House Ways and Means Committee,

The ICSC Maryland Government Relations Committee respectfully opposes House Bill 1554: *Sales and Use Tax - Taxable Business Services - Alterations.* ICSC is the member organization representing 50,000 members nationwide and promotes marketplaces where people shop, dine, work, and gather as vital parts of thriving communities. In Maryland, our industry supports over 525,000 jobs and generates over $8 billion in state sales tax revenue.

While we recognize Maryland's budgetary challenges, implementing a business-to-business (B2B) service tax is a short-sighted approach that will have far-reaching negative consequences for the state's economy, business climate, and commercial real estate sector. Our industry plays a critical role in Maryland's economic vitality, and this tax threatens to undermine investment, job creation, and the overall competitiveness of the state.

Disproportionate Burden on Small and Mid-Sized Businesses
Our property owners, developers, and tenants, rely extensively on third-party professional services such as architecture, engineering, legal counsel, and property management. Small and mid-sized businesses, which form the backbone of Maryland's marketplaces, often lack in-house resources and are particularly vulnerable to increased operational costs. This tax would impose significant new financial burdens, leading to higher lease rates, reduced reinvestment in properties, and fewer opportunities for business expansion.

Tax Pyramiding and Increased Costs for Tenants and Consumers
A tax on business services creates a cascading "tax-on-tax" effect, inflating costs at multiple stages of development and property management. This would ultimately be passed down to commercial tenants—many of whom are small businesses—resulting in higher rents and increased costs for consumers. Retailers, restaurants, office tenants, and industrial operators would all feel the impact, making it more expensive to do business in Maryland.

Competitive Disadvantage with Neighboring States
This tax would place Maryland at a significant disadvantage compared to neighboring states. Virginia and Delaware do not impose similar service taxes, making them more attractive destinations for commercial real estate investment and business operations. For properties and businesses near state borders, this policy creates a direct incentive to shift operations and service contracts to out-of-state providers, reducing Maryland's tax base and economic competitiveness.

Administrative Complexity and Compliance Costs
Beyond the direct tax liability, HB 1554 would introduce substantial administrative burdens for commercial property owners and businesses that must track, calculate, and remit the tax. This would increase compliance costs, particularly for small firms that lack dedicated tax departments. Additional expenses for accountants, software, and legal guidance further compound the financial strain, diverting resources away from investment in Maryland's built environment.

We urge the General Assembly to carefully consider the long-term implications of HB 1554, our state's economic future depends on a tax structure that encourages growth and investment.

Sincerely,

Eric McWilliams
ICSC Maryland Government Relations Chair
If you have any questions regarding this document or ICSC please contact Sushant Sidh (Sushant.Sidh@capitol-strategies.com)