House Bill 1554
Date: March 10, 2025
Committee: House Ways and Means Committee
Position: Opposed

Dear Chairwoman Atterbeary and Members of the Committee,

I am writing to you not only as the Director of Communications for Tessellate Consulting Group but also as a proud partner at a women-owned, minority-owned small business that was established just last year. Our business was created with the mission of providing essential support to federal, local, and state government agencies, helping them operate more efficiently and effectively. Through our consulting services, we have become an integral part of government operations, allowing agencies to meet their goals and serve their communities better.

At Tessellate, we understand that the services we provide are critical to the smooth running of government functions, and we are committed to helping these agencies navigate complex challenges. The impact of our work is seen in the improved efficiency, enhanced compliance, and cost savings we deliver to our government clients. It is with this understanding of the vital role our services play that I express my 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.

There are several specific reasons why this legislation would harm Maryland businesses:

- **Disproportionate Impact on Small Businesses:** Small businesses, like ours, are the lifeblood of our economy, but we operate on razor-thin margins and often lack the resources to absorb new taxes. This proposed tax would add thousands of dollars in new annual costs, placing even more strain on businesses that are already struggling to stay afloat amidst economic pressures. For small businesses, this tax could force heart-wrenching decisions: do we raise prices and risk losing customers, reduce our staff and affect the livelihoods of hardworking individuals, or cut investments in growth and innovation, stalling our progress? These are not just business decisions—they are personal, community-driven choices that have real-world consequences.

- **This Legislation Will Result in Pyramiding Taxes:** Imposing taxes on services creates a vicious cycle, where goods and services get taxed multiple times as they move through the production chain. This "pyramiding" effect ultimately drives up costs, and it’s the consumers, many of them hardworking Maryland families, who will bear the brunt. Higher prices on everyday goods and services will disproportionately affect those who can least afford it, making life harder for people already facing challenges in today’s economy.

- **Competitive Disadvantage in the Region:** By enacting this tax, Maryland risks becoming an outlier among its neighboring states, such as Virginia and Delaware, which do not impose similar taxes on business services. This puts Maryland businesses, especially small ones like ours, at a distinct disadvantage. For our clients near the state border, this tax creates a powerful incentive to seek service providers across state lines, where they can avoid the additional burden. It also threatens to drive Maryland-based businesses to relocate, leaving our state's economy weakened and our communities struggling to maintain the businesses that support them.

- **Administrative Burden and Compliance Costs:** The burden of this tax extends beyond the direct financial impact. Small businesses will now have to divert resources away from serving their clients and growing their businesses in order to comply with the administrative demands of tracking, collecting, and remitting the new tax. For many businesses, this means hiring additional staff, incurring more accounting costs, or spending precious hours on compliance instead of focusing on innovation and serving their communities. It's a heartbreaking reality for small business owners who already juggle a multitude of responsibilities.

- **Dangerous Precedent for Future Taxation:** Once this tax is in place, it sets a dangerous precedent for future increases or expansions. Today, it targets specific services at 2.5%, but the fear is that this is just the beginning. In future years, as the state faces budget challenges, this tax could easily expand to other essential services—like legal services, healthcare, or real estate—each time imposing a heavier burden on small businesses that already provide crucial support to our communities. The worry is that this tax will snowball, further suffocating the businesses that are trying to help grow the state's economy, not harm it.

- **Cascading Tax Effect:** Unlike traditional sales taxes, this B2B tax creates a "tax on tax" effect, where services are taxed at each stage of production. This results in higher prices for businesses, and in turn, higher prices for Maryland consumers. It's a burden that builds on itself, compounding over time and escalating costs. The nominal 2.5% rate may sound small, but the cumulative effect can be devastating—especially for working families and communities that are already facing high costs for basic goods and services.

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,

Taylor Vincent
Director of Communications
Tessellate Consulting Group