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Invested in America

March 10, 2025

The Honorable Vanessa E. Atterbeary
The Honorable Jheanelle K. Wilkins
House Ways and Means Committee
130 Taylor House Office Building
Annapolis, Maryland 21401

RE: HB 1554, Sales and Use Tax – Taxable Business Services – Alterations - OPPOSE

Dear Chair Atterbeary, Vice Chair Wilkins and House Ways and Means Committee Members:

The Securities Industry and Financial Markets Association ("SIFMA")[1] is a national trade association representing over 350 large, medium, and small broker-dealers, investment banks and asset managers, many of whom have a strong presence in Maryland. In fact, approximately 85,000 people in the state work in the finance and insurance industries, almost 18,000 of them are employed by securities firms, and 35 broker-dealer main offices call Maryland home. [2]

SIFMA is writing to express its strong opposition to House Bill 1554, legislation which would impose a 2.5% sales tax on a wide range of business-to-business transactions. Included in the list to be taxed are various financial services transactions, including portfolio management and investment advice, falling under NAICS Code 5239.

SIFMA strongly opposes a business-to-business tax, both in general and as it applies to the financial services industry. Our concerns include the following:

(1) A tax on portfolio management and investment advice hurts investors. Portfolio management and investment advice are critically important services, particularly during volatile economic times. Many of our firms work with businesses as they offer 401k and other retirement savings vehicles to their employees. A 2.5% service tax increases the overall cost of these plans, which translates into lower investment returns for employees saving for retirement. Similarly, small and large businesses use investment services to help their companies grow and prosper. Taxing such services results in less money for companies to invest back into their businesses and their employees.

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[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. For more information, visit http://www.sifma.org.
[2] US Department of Labor – Bureau of Economic Analysis and Discovery Data 2023. *See also* https://states.sifma.org/#states

(2) A sales tax on business transactions makes it significantly more costly for businesses to operate in the state. A 2.5% tax on business-to-business transactions is significant and makes Maryland an outlier both in the region and nationally. This will likely discourage new businesses from coming to the state and cause existing businesses to reevaluate their level of engagement with the state.

(3) The negative impact of the tax is much greater than the stated 2.5%. The taxes imposed on business services would have a "pyramiding" effect – the tax would be imposed on each transaction in the economic flow. This will result in increased costs at each level and substantially higher costs for the final consumer that well exceed the stated 2.5%.

(4) The proposed tax dramatically increases core operational costs of business with multiple legal entities. Large, multistate businesses often include multiple separate but related business entities within their overall business enterprise for various legal and operational purposes, such as financial management and shared services between business units. These entities engage in transactions amongst themselves to efficiently provide business support, financial planning, and other business services. Taxing these transactions dramatically increases operational costs and specifically penalizes companies that have made a significant commitment to the state.

(5) The proposed tax hurts Maryland small businesses, including smaller financial services firms. Small Maryland-based businesses that rely on various business-to-business services to support and maintain their operations would see their baseline costs of doing business increase substantially. These smaller businesses often have less ability to absorb these increased costs.

(6) A business-to-business tax creates substantial questions and administrative challenges for both businesses and the state. Because the vast majority of states do not impose such a tax, this is unfamiliar territory for most businesses. In this instance, businesses would have to: (a) evaluate whether a service sold between businesses is defined as a taxable service; (b) assess each individual service transaction to determine if it is taxable under Maryland sourcing rules (which are not clearly defined under existing law or by the proposed legislation); and (3) where applicable, collect and remit the tax. The Comptroller will also play a sizeable new role of identifying and registering businesses, educating them on the tax, monitoring for compliance, and enforcing the provisions. In addition, the difficulty of interpreting what services are being provided, whether those services are taxable services, and whether each transaction is sourced to Maryland could result in lengthy audits and may result in litigation.

In short, we do not believe that a business-to-business tax is good for Maryland, Maryland businesses, or Maryland retirement savers. For these reasons, we respectfully request that you reject HB 1554 as drafted.

We appreciate your attention to this important issue. Please contact me or our lobbyist Keith Walmsley with any questions or concerns.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director & Associate General Counsel