

TESTIMONY PRESENTED TO THE
WAYS AND MEANS COMMITTEE

HOUSE BILL 1554

SALES AND USE TAX - TAXABLE BUSINESS SERVICES – ALTERATIONS

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POSITION: AGAINST

March 10, 2025

Chair Atterbeary, Vice Chair Wilkins, and Members of this Committee, thank you for the opportunity to submit testimony against House Bill 1554. I would urge you to vote against this bill as the modifications proposed would have a negative impact upon local businesses in numerous ways.

Businesses throughout the State rely on numerous service providers to perform key functions, including talent acquisition, proposal development, information technology, security, compliance, legal, accounting, as well as those used to deliver value to their customers.

This reliance on external service providers is especially the case for the small and mid-sized business, as larger organizations have the capacity to bring these functions in house. As a result of the difference in scale, this bill amounts to a tax on small and mid-size businesses, as they will not be able to pass these costs along to their customers as they continue to compete with larger organizations that do not incur the tax.

This bill also weakens the cybersecurity posture of almost every business in the state. There is an extensive reliance on managed service and security providers, external compliance assessment and audit firms, penetration testing firms providing the very specialized skills that are needed to operate securely in our connected world. The budgets for these necessary operational expenses are already tight due to the complexity required to protect the average business today. Adding 2.5% cost to all these services will force business leaders to make trade-offs in the level of service they receive. As a virtual CISO, I have seen numerous times where operational needs required to operate the business take priority over cybersecurity spend. The net effect is that overall cybersecurity budgets stand to be negatively impacted by this tax, making Maryland businesses more vulnerable to attack.

Maryland companies and residents are already reeling from layoffs and uncertainty in the Government sector. The ripple effect in the Service sector is already being felt, as people

scale back their reliance on services they can afford to do themselves or do without. This tax, especially at this time, will only drive further belt-tightening by businesses and residents, and will only add to the challenges that Maryland businesses and residents are facing.

Maryland's tech sector, in particular, has been negatively impacted by less favorable conditions than those enjoyed by firms in neighboring states. All one needs to do to see this is to drive across the bridges both north and south, you can physically see the disadvantage Maryland businesses face out of the gate. New start-up businesses will look at this tax as another reason to locate in a more business friendly state on one of our borders.

I respectfully request you to vote against House Bill 1554. The bill will have a disproportionate impact to small and mid-size businesses if passed. The bill will also force businesses to make trade offs in operational spend, likely at the expense of their cybersecurity posture. This tax, on top of the uncertainty resulting from layoffs, will only make business more difficult in Maryland. The laws we pass should protect Maryland residents and businesses, instead of making life harder and more expensive, especially in these uncertain times.

Thank you for your consideration.

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