LeadingAge Maryland

TO: Ways and Means

FROM: LeadingAge Maryland

SUBJECT: House Bill 1554, Sales and Use Tax - Taxable Business Services - Alterations

DATE: March 12, 2025

POSITION: Unfavorable

LeadingAge Maryland respectfully opposes House Bill 1554, Sales and Use Tax - Taxable Business Services – Alterations.

LeadingAge Maryland is a community of more than 140 not-for-profit aging services organizations serving residents and clients through continuing care retirement communities, affordable senior housing, assisted living, nursing homes and home and community-based services. Members of LeadingAge Maryland provide health care, housing, and services to more than 20,000 older persons each year. We represent more than 100 affordable senior housing communities across the state.

House Bill 1554 would apply a 2.5% sales and use tax on select business services (using the North American Industrial Classification System Codes), if both the service provider, and the buyer, are business entities. These services would include consulting and accounting services. Legislative analysts estimate that the 2.5% sales tax on select business services below will raise approximately $1B in revenue.

When nonprofit affordable housing developers build properties financed by low-income housing tax credits (LIHTC), a for-profit subsidy is created as the property owner. These for profit LIHTC owners would be subject to the business-to-business sales tax increase when they purchase goods and services essential to property operations, including management company contracts. The primary source of income for these properties is rent collections. Rents are regulated and cannot be increased to support this increased expense. The cost will hit the property’s bottom line, which has extremely thin margins. If the property cannot afford the cost of the tax, it would be passed on to its parent organization, which is a nonprofit.

Although our members are all nonprofit organizations, some of the individual housing communities under a nonprofit organization are structured as limited liability companies (LLCs). For example, Low-Income Housing Tax Credit properties are always structured as LLCs, and as such would be required to pay this increased tax on certain goods and services. Rents at these communities are set well below market rates and are part of a carefully structured budget to ensure the community can remain viable and remain affordable for the older adults who call them home. Increases in costs cannot simply be passed on to the consumer, as they can for many other business entities.

Senior affordable housing providers operate on fixed and limited budgets, often reliant on federal, state, and local funding sources to ensure that rent remains affordable for seniors living on modest incomes. This legislation would impose a new and unnecessary financial burden by taxing essential business services that we rely on to remain financially stable and compliant with government regulations. These include:

- Consulting Services: Affordable housing providers frequently engage consultants to navigate complex funding programs, secure compliance with HUD and state regulations, and develop strategies to expand much-needed senior housing options. Taxing these services increases costs and could deter providers from obtaining essential expertise.
- Accounting Services: Affordable housing providers require specialized accounting services to manage federal housing subsidies, tax credit financing, and state-administered funding. A sales tax on these services would divert critical resources away from direct housing support and senior services.

Maryland is facing an affordable housing crisis, particularly for low-income seniors on fixed incomes. This legislation would exacerbate financial pressures on providers, forcing difficult choices between raising rents, cutting services, or delaying essential maintenance—all of which would harm the very seniors we are committed to serving.

While we oppose the broad application of this tax, at a minimum, we urge the committee to consider exempting senior affordable housing providers and nonprofit housing organizations. Exemptions exist in other areas of tax policy to support affordable housing initiatives, and a similar exemption here would prevent an undue burden on housing providers serving Maryland's most vulnerable populations.

Maryland must continue to support affordable senior housing by ensuring that housing providers are not burdened with new financial barriers that make it harder to fulfill our mission.

For these reasons, LeadingAge Maryland respectfully requests an unfavorable report on House Bill 1554.

For more information, please contact Aaron Greenfield at 410.446.1992 or aaron@agreenfieldlaw.com