House Bill 1554

Sales and Use Tax – Taxable Business Services - Alterations
House Ways & Means Committee
Position: Oppose

Dear Chair Atterbeary and Members of the House Ways & Means Committee,

NAIFA-MD ("The National Association of Insurance and Financial Advisors – Maryland Chapter") appreciates the opportunity to submit written testimony on HB 1554. NAIFA-MD is made up of insurance agents and advisors, financial advisors and financial planners, investment advisors, broker/dealers, multiline agents, health insurance and employee benefits specialists, and more. We are the closest to the consumer and provide products, services, and guidance that increase financial literacy in our society, protect their clients against life's inherent risks, help hard-working Americans prepare for retirement, and create financial security and prosperity so their clients can leave a legacy for future generations.

House Bill 1554 proposes a 2.5% sales tax on business-to-business services, including those provided by financial planners. NAIFA-MD, as the premier association representing the financial planning community, strongly opposes this legislation due to its potential to harm small businesses, increase consumer costs, and undermine Maryland's economic competitiveness.

Impact on Small Businesses

1. Increased Operational Costs: Small businesses rely heavily on external financial planning services to manage their finances effectively. Imposing a sales tax on these services would increase their operational costs, making it more challenging for them to compete with larger corporations that often have in-house financial teams.

2. Reduced Access to Essential Services: The added expense could lead small businesses to reduce their use of financial planning services, exposing them to financial risks and compliance issues. This would be particularly detrimental in an environment where regulatory requirements are already complex.

3. Competitiveness: None of Maryland's neighboring states impose a sales tax on financial planning services to businesses, either due to a lack of service taxation or specific exemptions for professional services. Maryland is already ranked poorly in terms of business tax climate. Adding

another layer of taxation will further discourage businesses from expanding or relocating to Maryland, ultimately affecting job creation and economic growth.

Consumer Impact

1. Higher Prices: The cost of the tax will inevitably be passed on to consumers, increasing the prices of goods and services. This will disproportionately affect lower-income households, who spend a larger portion of their income on essential goods and services.
2. Tax Pyramiding: The proposed tax could lead to tax pyramiding, where services are taxed multiple times throughout the production chain, further driving up consumer costs.

Administrative Challenges

1. Complexity and Compliance: Implementing this tax will introduce significant administrative burdens for small businesses, requiring them to track and report taxes on professional services. This complexity could lead to disputes and additional compliance costs.
2. Remote Work and Service Location: Determining where a service is provided in cases of remote work or multi-state operations will create logistical challenges, potentially leading to confusion and disputes.

Conclusion

In conclusion, while the intent to address budget deficits is understandable, taxing business-to-business services is not a viable solution. It will harm small businesses, increase consumer costs, and undermine Maryland's economic competitiveness. NAIFA-MD urges the committee to consider alternative solutions that support small businesses and promote economic growth without imposing additional burdens on Marylanders.