HB 1554 & SB 1045_Sales and Use Tax_OPPOSE.pdf
Uploaded by: Adrienne Breidenstine
Position: UNF

March 12, 2025

Senate Budget & Taxation Committee
House Ways and Means Committee
TESTIMONY IN OPPOSITION

HB 1554/SB 1045: Sales and Use Tax – Taxable Business Services – Alterations

House Bill 1554
Chair Vanessa E. Atterbeary
House Ways and Means Committee
130 Taylor House Office Building
Annapolis, Maryland 21401

Senate Bill 1045
Chair Guy Guzzone
Senate Budget & Taxation Committee
3 West Miller Senate Office Building
Annapolis, Maryland 21401

Behavioral Health System Baltimore (BHSB) is a nonprofit organization that serves as the local behavioral health authority (LBHA) for Baltimore City. BHSB works to increase access to a full range of quality behavioral health (mental health and substance use) services and advocates for innovative approaches to prevention, early intervention, treatment and recovery for individuals, families, and communities. Baltimore City represents nearly 35 percent of the public behavioral health system in Maryland, serving over 100,000 people with mental illness and substance use disorders (collectively referred to as "behavioral health") annually.

BHSB opposes HB 1554/SB 1045: Sales and Use Tax – Taxable Business Services – Alterations as this bill fails to address how the 2.5% tax on a broad set of business-to-business service categories would impact the non-profit sector.

As a non-profit organization, BHSB utilizes services provided by the private sector that are slated to be taxes in this bill. Although, non-profits are tax exempt organizations, the Committees should be concerned about how the private sector will manage an increase in the sales tax when it cannot be passed on to the consumer. BHSB urges the committee to clarify how an increase in the sales tax would impact non-profit organizations.

For more information, please contact Adrienne Breidenstine, 443-908-0503

LeadingAge Maryland - HB 1554 - Taxable Services.p
Uploaded by: Allison Ciborowski
Position: UNF

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

HB 1554 - Letter.pdf
Uploaded by: Bill Packo
Position: UNF

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

Dear Chairwoman Atterbeary and Members of the Committee,

As a local business small business that has been in business for almost 40 year, I write to express 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.

While we understand Maryland faces budget challenges, implementing a B2B service tax represents a short-term fix that would create significant long-term problems for Maryland's economy and competitiveness. There are several specific reasons why this legislation would harm Maryland businesses:

Disproportionate Impact on Small Businesses

Small businesses operate on thin margins and lack the resources to absorb new taxes or bring services in-house. Unlike large corporations, small businesses rely heavily on outsourced professional services for accounting, technology support, and other essential functions. This tax would add thousands in new annual costs for businesses already struggling with economic pressures, potentially forcing difficult choices between raising prices, reducing staff, or cutting investments in growth.

This legislation Will Result in Pyramiding Taxes

Taxing services increases the potential for services and goods to be taxed more than once, which leads to higher consumer costs.

Competitive Disadvantage in the Region

This tax would make Maryland an outlier among our neighboring states. Virginia and Delaware do not impose similar taxes on business services, creating an immediate competitive disadvantage for Maryland businesses. For my business located near state borders, this tax creates a strong incentive to seek service providers across state lines, while also encouraging Maryland-based service businesses to relocate to neighboring states.

Administrative Burden and Compliance Costs

Beyond the direct tax cost, this legislation would create significant administrative burdens for businesses that must track, collect, and remit this new tax. For many small businesses, this means additional accounting costs and time spent on compliance rather than growing their business.

Dangerous Precedent for Future Taxation

Once established, this tax structure could easily expand to additional service categories or increase in rate. While today's proposal targets specific services at 2.5%, there is legitimate concern that future budget shortfalls could lead to rate increases or expansion to other essential business services like legal services, real estate services, or healthcare.

Cascading Tax Effect

Unlike a traditional sales tax on final consumption, this B2B tax creates a "tax on tax" scenario where services taxed at various stages of production ultimately result in higher costs passed on to Maryland consumers. This cascading effect makes the true impact much greater than the nominal 2.5% rate suggests.

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,

William Packo
Owner
Towson Turtle, Inc DBA Barley’s Backyard Uptown
408 York Rd
Towson , MD 21204

HB1554 SB 1045 written testimony.pdf

Uploaded by: Christine Clingerman

Position: UNF

Subject: Opposition to HB 1554 / SB 1045 – Urging You to Vote NO

Dear Delegate Moon,

I hope this email finds you well. I am writing to express my strong opposition to HB 1554 / SB 1045 and to urge you to vote NO on this legislation.

I strongly encourage you to oppose HB 1554 / SB 1045 or any other proposal to extend the sales tax to professional services. In challenging economic times like these, the Maryland government should focus on fostering a climate that encourages economic growth and job creation. Extending the sales tax to professional services would harm economic growth, raise costs, cripple job creation and make Maryland less competitive. This bill would not only impose a tax on essential services but also introduce new compliance burdens.

Professional services can be rendered from anywhere. Our neighboring states and even international professional service providers don't tax these services. If this bill passes, businesses in Maryland will be at a significant disadvantage, with many clients likely to turn to service providers in neighboring states, like Virginia, where these services are not subject to sales tax. This would disproportionately harm Maryland-based Certified Public Accounting firms.

As an example, I have a significant real estate client located in Pennsylvania. If this bill passes, it is very likely they will seek accounting and tax services from firms outside of Maryland to avoid the new tax. The real estate industry is already struggling due to high interest rates, which drive up their costs. Imposing a tax on accounting and tax services would only worsen these difficulties, and our clients may very well turn to providers outside of Maryland.

In conclusion, I believe a sales tax on professional services will stifle business growth, raise costs, create compliance challenges, and make Maryland less competitive.

I ask that you carefully consider these concerns and vote NO on HB 1554 / SB 1045. I appreciate your time and service to our community and look forward to your response.

Sincerely,

Christine Clingerman, CPA
KatzAbosch
9690 Deereco Road
Suite 500
Timonium, MD 21093
410-828-6432
cclingerman@katzabosch.com

HB 1554 - Tropix.pdf
Uploaded by: Dennis Mejillones
Position: UNF

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

Dear Chairwoman Atterbeary and Members of the Committee,

I represent Tropix Laundromat, as well as Lavado Laundry Services, two local business organizations, I write to express 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.

While we understand Maryland faces budget challenges, implementing a B2B service tax represents a short-term fix that would create significant long-term problems for Maryland's economy and competitiveness. There are several specific reasons why this legislation would harm Maryland businesses:

Disproportionate Impact on Small Businesses

Small businesses operate on thin margins and lack the resources to absorb new taxes or bring services in-house. Unlike large corporations, small businesses rely heavily on outsourced professional services for accounting, technology support, and other essential functions. This tax would add thousands in new annual costs for businesses already struggling with economic pressures, potentially forcing difficult choices between raising prices, reducing staff, or cutting investments in growth.

This legislation Will Result in Pyramiding Taxes

Taxing services increases the potential for services and goods to be taxed more than once, which leads to higher consumer costs.

Competitive Disadvantage in the Region

This tax would make Maryland an outlier among our neighboring states. Virginia and Delaware do not impose similar taxes on business services, creating an immediate competitive disadvantage for Maryland businesses. For Tropix Laundromat/Lavado Laundry Service located near state borders, this tax creates a strong incentive to seek service providers across state lines, while also encouraging Maryland-based service businesses to relocate to neighboring states.

Administrative Burden and Compliance Costs

Beyond the direct tax cost, this legislation would create significant administrative burdens for businesses that must track, collect, and remit this new tax. For many small businesses, this means additional accounting costs and time spent on compliance rather than growing their business.

Dangerous Precedent for Future Taxation

Once established, this tax structure could easily expand to additional service categories or increase in rate. While today's proposal targets specific services at 2.5%, there is legitimate concern that future budget shortfalls could lead to rate increases or expansion to other essential business services like legal services, real estate services, or healthcare.

Cascading Tax Effect

Unlike a traditional sales tax on final consumption, this B2B tax creates a "tax on tax" scenario where services taxed at various stages of production ultimately result in higher costs passed on to Maryland consumers. This cascading effect makes the true impact much greater than the nominal 2.5% rate suggests.

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,

Dennis Mejillones
Owner/Manager
Tropix Laundromat/Lavado Laundry
Support@TropixLaundromat.com
954-401-5636
18532 Woodfield Rd, Gaithersburg MD 20879

SB1045 & HB1554 Business to Business Taxes.pdf
Uploaded by: Jean Benhoff
Position: UNF

Witness: **Jean Miceli Benhoff**
Jurisdiction: **Baltimore County**
Bill: **SB1045 and HB1554**
Position: **Strongly Oppose**

For the purpose of requiring Altering the definitions of "taxable price" and "taxable service" for the purposes of certain provisions of law governing the sales and use tax to impose the tax on certain labors and services if both the provider of the service and the buyer are business entities; and specifying the rate of the sales and use tax for certain labor and services.

Here in Maryland, we own a full service home inspection business servicing clients all over this state. We cannot afford to pay more taxes. And we cannot hire more employees, period.

It is incumbent upon the MD elected officials to save small businesses in Maryland. What MUST be important to all of you, if you want to keep all of us small business owners here in Maryland you must not pass this burdensome tax. Otherwise, all of us will be forced to layoff employees and not to hire either. We have a home also in Florida and I did not want to move our business being lifelong residents. Your taxes are forcing us out by taxing us into extinction already and now more taxes.

You will make worse the shortage of revenue when we are forced to close!

Thank you for your consideration.
Respectfully submitted,
Jean Benhoff
I vote!

SB1045 & HB1554 Business to Business Taxes.pdf

Uploaded by: Jean Benhoff

Position: UNF

Witness: **Jean Miceli Benhoff**
Jurisdiction: **Baltimore County**
Bill: **SB1045 and HB1554**
Position: **Strongly Oppose**

For the purpose of requiring Altering the definitions of "taxable price" and "taxable service" for the purposes of certain provisions of law governing the sales and use tax to impose the tax on certain labors and services if both the provider of the service and the buyer are business entities; and specifying the rate of the sales and use tax for certain labor and services.

Here in Maryland, we own a full service home inspection business servicing clients all over this state. We cannot afford to pay more taxes. And we cannot hire more employees, period.

It is incumbent upon the MD elected officials to save small businesses in Maryland. What MUST be important to all of you, if you want to keep all of us small business owners here in Maryland you must not pass this burdensome tax. Otherwise, all of us will be forced to layoff employees and not to hire either. We have a home also in Florida and I did not want to move our business being lifelong residents. Your taxes are forcing us out by taxing us into extinction already and now more taxes.

You will make worse the shortage of revenue when we are forced to close!

Thank you for your consideration.
Respectfully submitted,
Jean Benhoff
I vote!

Testimony in Opposition to HB1554.pdf
Uploaded by: Jeffrey Rosen
Position: UNF

Testimony in Opposition to HB1554/SB1045
Submitted by: Jeffrey Rosen, Managing Partner, RS&F
House Ways & Means Committee / Senate Budget and Taxation Committee
March 12, 2025
Legislative Position: UNFAVORABLE

Chair Atterbeary, Chair Guzzone, and Members of the Committees,

My name is Jeffrey Rosen, and I am the Managing Partner of RS&F, a business advisory and CPA firm based in Towson. Our firm employs many Maryland residents, represents hundreds of clients across many industries within the state, and supports various local community organizations.

This legislation would directly impact numerous clients by making it more costly for them to purchase essential accounting and consulting services. It would impose a tax on services required by businesses to fulfill their mandated tax compliance (i.e. it's a tax on tax). Small and middle-market businesses, which already face significant resource constraints, will bear the brunt of this policy while larger businesses that can perform these services in-house will avoid the tax entirely.

Many of our clients have already expressed grave concerns about other tax increases being proposed by the State of Maryland. The addition of this tax will push them further toward considering moving their business interests out of the state and choosing to work with non-Maryland CPAs, which will ultimately hurt Maryland's economy. This is not conjecture, rather we have had many conversations with business clients who believe their interests are fundamentally misaligned with those of the state.

Unnecessary Compliance Burdens and Increased Complexity

HB1554/SB1045 will add another layer of compliance burdens on taxpayers while also straining the CPA profession, which is already facing a shortage of resources and talent. The tax structure in Maryland is already complex and overwhelming for small businesses. Introducing an additional tax on professional services will only exacerbate these challenges, leading to confusion, higher compliance costs, and increased audit risks for businesses that lack the resources to navigate the ever-changing tax landscape. This legislation also violates several guiding principles of good tax policy, including the ability for effective tax administration, simplicity, neutrality, economic growth and efficiency, and minimizing the tax gap (reference: https://bit.ly/goodtaxpolicy).

Maryland's Competitiveness at Risk

This bill, in combination with other proposed tax increases, will unquestionably hurt Maryland's competitiveness. Businesses will be more inclined to relocate to other states with better tax policies, leaving Maryland at a disadvantage. Even in cases where businesses do not relocate entirely, many may absorb the tax and simply choose not to grow or hire new employees in the state. Rather than fostering a pro-business environment, this legislation will discourage entrepreneurship, job creation, and overall economic expansion.

Request for an Unfavorable Report

For these reasons, I urge you to issue an UNFAVORABLE report on HB1554/SB1045. This bill is anti-growth, anti-business, and would create unnecessary financial burdens on the very businesses that drive Maryland's economy. Rather, I encourage lawmakers to focus on policies that encourage economic growth and job creation within our great state.

Thank you for your time and consideration.

Jeffrey S. Rosen, CPA, CGMA, MBA

Testimony of Jordan Coon HB 1554.pdf
Uploaded by: Jordan Coon
Position: UNF

Testimony of Jordan Coon

Opposition to HB1554 – Sales and Use Tax on Business Services
House Ways & Means Committee
March 12, 2025

Legislative Position: UNFAVORABLE

Chair Atterbeary and Members of the Committee,

My name is Jordan Coon, and I am a Public Accountant with over 20 years of experience in the accounting profession. Grandizio, Wilkins, Little & Matthews, LLP ("GWLM") is a Public Accounting firm employing over 45 individuals with offices in Hunt Valley and Millersville, MD and has been in existence since 1986. We work with thousands of small businesses across each of Maryland's counties, providing essential accounting and financial services that help them navigate complex tax and regulatory environments. We strongly oppose HB1554, which seeks to impose a 2.5% sales tax on business-to-business (B2B) professional services, including accounting, financial planning, and consulting services. This bill will have significant negative consequences for Maryland businesses, professionals, and the broader state economy.

A Competitive Disadvantage for Maryland Businesses

The vast majority of Maryland's population and businesses are within an hour or less of states that do not impose such a tax. By implementing this tax, Maryland will place its businesses at a distinct competitive disadvantage. Companies will seek professional services in neighboring states, where they can avoid the additional tax burden. Given that many accounting services are now provided virtually, businesses will have little incentive to retain Maryland-based service providers when they can access the same expertise from tax-free jurisdictions just across the border.

Economic Impact and Additional Financial Burden

Taxes on businesses ultimately get passed down to the individual. Over the past five years, Maryland businesses and residents have faced extreme cost increases across numerous sectors. Additionally, recent federal budget cuts have significantly impacted Maryland due to our proximity to Washington, D.C., and the high number of federal contractors and employees in the state. Imposing a tax on essential business services would only exacerbate these financial pressures and create further economic instability.

Maryland's Track Record of Tax Policy Challenges

Past tax policy changes in Maryland have demonstrated the risks of poorly implemented tax structures. The pass-through entity (PTE) tax, for example, was mishandled and created undue burdens in both its initial implementation year and subsequent years. The latter was due, in large part, to a high volume of inaccurate tax notices issued by the state, resulting in confusion and administrative costs for businesses and tax professionals. HB1554 risks repeating these same mistakes, further eroding confidence in Maryland's tax policy administration.

Higher Costs, Reduced Business Revenue, and Economic Decline

For GWLM and many of our clients, this tax will increase operational costs. Some businesses may attempt to absorb the additional expense, impacting their bottom line, while others may have no choice but to pass it on to customers. Either way, Maryland businesses will suffer competitive disadvantages compared to those in states without this tax.

As businesses shift their service needs to providers outside of Maryland, we will see a decline in tax revenue over time, undermining any short-term gains the state hopes to achieve with this measure. The long-term impact will be a weakening of Maryland's economy, as businesses relocate or restructure to minimize their tax burden.

Conclusion: A Harmful and Short-Sighted Tax Policy

HB1554 is fundamentally flawed and will cause long-term harm to Maryland's economic growth and competitiveness. Instead of imposing additional financial burdens on businesses, lawmakers should focus on policies that promote economic expansion and job creation. For these reasons, I strongly urge the committee to issue an **UNFAVORABLE** report on HB1554.

Thank you for your time and consideration.

Jordan Coon

Opposition HB1554.pdf
Uploaded by: Kathryn Maney
Position: UNF

CALVERT COUNTY
CHAMBER OF COMMERCE
EDUCATE. ADVOCATE. CONNECT.

The Honorable Vanessa E. Atterbeary
Chair, House of Delegates Ways and Means Committee
131 Taylor House Office Building
6 Bladen Street
Annapolis, MD 21401

Dear Chair Atterbeary,

The Calvert County Chamber of Commerce is an organization that represents almost 400 businesses, in the Southern Maryland region, which collectively supports nearly 14,000 employees working together to develop a productive climate in which to conduct business. The Chamber represents small and large businesses, however more than 70% of our membership is comprised of small businesses. For our members, this proposed taxable business services tax would be a direct hit to their bottom line and for some it could be detrimental to their very existence. The domino effect of job losses, a surge in consumer pricing and reduced opportunities for wage growth could be experienced by all Marylanders.

On behalf of our members, we submit the following comments highlighting our **OPPOSITION to HB 1554**:

- The proposed 2.5% services tax is not just a business tax – it is a tax on growth. This new tax is a dollar not spent on hiring, innovation, or growth.
- Small businesses are already operating on thin margins. Adding a new 2.5% tax to essential services (i.e. accounting, marketing, and IT support) could be the difference between profit and loss.
- Our neighbors Virginia and Delaware do not tax business services. Why would Maryland make itself less competitive?
- More burden to the cost of doing business in Maryland encourages businesses to drive across state lines.

We are asking leadership to create and promote public policies, and competitiveness that will sustain economic growth for Maryland businesses, employees, and families. Therefore, as an advocate for our members and the business community, we are submitting this letter in **OPPOSITION** to **HB 1554.**

We appreciate your time and consideration.

Sincerely,
Kathryn Maney
Kathryn Maney
President/CEO

cc: The Honorable Guy Guzzone
Calvert County Delegation
Board of Directors, Calvert County Chamber of Commerce

P.O. Box 9 • Prince Frederick, MD 20678-0009 • (located at 120 Dares Beach Road)
(410)535-2577 • Fax (443)295-7213
E-mail: calvertchamber@calvertchamber.org • www.calvertchamber.org

HB 1554 Sales and Use Tax

Unfavorable

Klaus Diefenbach
6742 Deer Spring La.
Middletown, MD 21769
03/10/2025

As a retired Maryland resident, I am very upset with my state government. You are driving people out of this state with your financial irresponsibility.

I am being financially squeezed from every direction. Car insurance up 15%, groceries up by a large percentage , Home Owners insurance up 19% and Property Tax up 30% over the next three years.

I am on a fixed income and will have to figure out how to pay for these increases. I will have to give up some things and live within my means. I suggest you people do the same if you want to get re-elected in the future.

ICI Comment Letter on Maryland Sales Tax on Servic

Uploaded by: Kyle Gilbert

Position: UNF

The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE
1401 H Street, NW, Washington, DC 20005 USA

March 10, 2025

Mr. Leader Moon:
350 Taylor House Office Building
6 Bladen Street
Annapolis, MD 21401

Senator Hettleman
220 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

Delegate Vanessa Atterbeary, Chair
Delegate Jheanelle Wilkins, Vice Chair
Ways and Means Committee
House Office Building, Room 130,
Annapolis, MD

Senator Guy Guzzone, Chair
Senator Jim Rosapepe, Vice Chair
Budget and Taxation Committee
West Miller Senate Building, Room 3,
Annapolis, MD

Re: *SB 1045 & HB 1554: Sales Tax on Additional Services - Oppose*

Dear Mr. Leader Moon and Senator Hettleman,

The Investment Company Institute (ICI)[1]—on behalf of its members (asset managers) that operate or do business in Maryland, and all Maryland residents who save and invest through funds—strongly opposes SB 1045 and HB 1554, which expands the sales tax on services to additional services.

[1] The Investment Company Institute (ICI) is the leading association representing the asset management industry in service of individual investors. ICI's members include mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in other jurisdictions. Its members manage $39.1 trillion invested in funds registered under the US Investment Company Act of 1940, serving more than 120 million investors. Members manage an additional $9.6 trillion in regulated fund assets managed outside the United States. ICI also represents its members in their capacity as investment advisers to collective investment trusts (CITs) and retail separately managed accounts (SMAs). ICI has offices in Washington DC, Brussels, and London.

Executive Summary

The proposed amendment to Section 11–101(c–12)(m)(14) would expand the definition of taxable services to include many financial services,[2] including investment advice and asset management services, among other services. We oppose these changes on three grounds:

- First, sales tax should not be applied to or incurred by shareholders and other investors saving for retirement and other important financial goals.
- Second, asset managers in Maryland should not be placed at a competitive disadvantage to out-of-state competitors.
- Third, applying sales tax to asset management services would be extraordinarily difficult (if not impossible) to implement and administer efficiently and fairly.

ICI strongly recommends that the sales tax not be extended to financial services including asset management services. At a minimum, a comprehensive study must be conducted to avoid unintended consequences of a services tax on the asset management industry.

1. Background on Investment Funds, Shareholders, and Asset Managers

An investment fund pools individual investors' collective savings and invests in a diversified portfolio of stocks, bonds or other securities. Each fund investor is a shareholder of the fund. Each share represents a proportionate ownership in all the fund's underlying securities. Investment securities are selected by a professional investment adviser to meet a specific financial goal, such as growth or income. The fund selects an investment adviser (also called an "asset manager" or "manager") to manage the fund's assets, operate and administer the fund. These investment advisers may also hire other investment advisers to manage portions of the fund, or the entire fund, or to provide specific investment advice ("sub-advisors").

Funds typically are distributed nationally. Investors often purchase their shares through intermediaries (*e.g.,* brokers) rather than directly from the fund. Shares purchased through an intermediary often are registered with the fund in the intermediary's name in a so-called "street name" account. Funds often will have little or no information about the intermediary's customers holding through these accounts. This information typically can be procured from third parties; this information, however, is neither immediately available, nor free.

Funds with a common investment adviser are often referred to as a fund "family" or "complex." Competition between fund complexes and their advisers is intense. This competition has led to a steep drop in fees that managers charge for investment advisory services.[3] As a result, managers are increasingly sensitive to state and local taxes that may place them at a competitive disadvantage.

[2] As defined by reference to NAICs code 5239 (Other financial investment activities). https://www.naics.com/naics-code-description/?v=2017&code=5239.

[3] Asset-weighted average expense ratios for equity, bond, and hybrid mutual funds fell in 2018 to their lowest levels in at least 25 years. For example, asset-weighted basis, average expense ratios for equity mutual funds fell from 0.99 percent in 2000 to 0.42 percent in 2023, a 58 percent decline. https://www.icifactbook.org/pdf/2024-factbook-ch6.pdf

2. **Sales tax should not be applied to or incurred by shareholders and other investors saving for retirement and other important financial goals.**

Imposing sales tax on the investment advisory services provided to funds and their shareholders will increase the cost of saving for retirement and other long-term needs. Given the increased responsibility that individuals have for ensuring their own retirement security, the legislature should be creating incentives to *encourage* rather than *discourage* saving.

Mutual funds and exchange traded finds (ETFs) are the investment vehicle of choice for moderate-income investors, have democratized our capital markets in ways that could not have been imagined just a generation or two ago. The typical mutual fund investor is a middle-class American with a median household income of $100,000 and modest holdings.[4] More than half of all American households are mutual fund investors and now depend on these investments to buy a home, finance a child's education, support aging parents or extended family, and prepare for retirement. Sales tax paid by the investment advisor is effectively incurred by the fund's shareholders, as taxes and fees paid by the fund directly reduce the value of the fund, and every share of that fund.

3. **Asset managers in Maryland should not be placed at a competitive disadvantage to out-of-state competitors.**

Extending the sales tax to services provided by asset managers operating in Maryland could place them at a distinct competitive disadvantage with out-of-state asset managers. Asset managers and their employees are mobile, and their offices are dispersed through the United States and overseas. These are well-compensated jobs and highly educated employees that states often covet. The legislature should be incentivizing asset managers to locate, hire, and operate in Maryland, rather than elsewhere. Asset managers remaining in Maryland likely would be required to assess and collect sales tax on their services, while out-of-state asset managers may not, or may incur less Maryland sales tax. Imposing sales tax on services *always* have this anti-competitive effect for Maryland-based asset managers, it cannot be corrected by technical modifications to the legislation.

Asset managers need well-educated employees and ready access to modern technology. Physical equipment requirements are minimal. The growing prevalence of remote work in the post-pandemic hybrid working environment, and advances in technology, have further decreased the need for asset managers to maintain office space. Many employers are downsizing office space and reducing or eliminating hiring in states that create significant tax burdens for companies operating in those states, such as sales taxes on services. These employers will simply hire employees in other states where they have offices or hire remote employees in states with more favorable tax regimes. Likewise, fund shareholders are widely dispersed across the United States, and can easily communicate with an asset manager electronically, by mail, or over the phone. A "local" asset manager has no inherent advantage over "non-local" managers in attracting new local investors. Given this mobility of asset managers and shareholders, other factors such as tax burdens provide a strong incentive or

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[4] The median mutual fund–owning household had $100,000 in household income, $225,000 in household financial assets, and $125,000 invested in three mutual funds, including at least one equity mutual fund. https://www.icifactbook.org/pdf/2024-factbook-ch7.pdf

disincentive for asset managers when determining where to establish or expand operations and hire or relocate employees.

4. **Third, applying sales tax to asset management services would be extraordinarily difficult (if not impossible) to implement and administer efficiently and fairly.**

The bill as drafted applies broadly to all investment advice but does not specify how the tax would be applied to the fund industry. Difficult policy questions arise in determining, for example, which party (the investment adviser, the fund, or the investors) should be treated as receiving the service. Careful study is needed before enacting taxes with highly uncertain application.

If investment advice was subject to tax, it isn't clear what portion of investment advisory services (if any) would taxable in Maryland. The fund itself contracts with the investment adviser for their services, but is isn't clear whether the fund or the fund's shareholders ultimately benefit from those services. Sub-advised funds present additional complexity, because the fund's investment adviser may sub-contract with other investment advisers to manage a portion of the fund.

A sales tax on services *theoretically* could be assessed either against the fund itself or against the fund's shareholders. Presumably, the tax would be assessed based upon the location of (1) the fund's assets manager, or (2) the fund's state of incorporation, if the fund were treated as the consumer, or (3) the fund's shareholders, if the shareholders were treated as the consumer on a look-through basis. If the fund's investors are deemed to be the consumer of these services, it would be difficult or impossible to determine the location of all fund shareholders. Many individuals invest in funds through brokers and other intermediaries, which do not disclose the identities or residences of their customers to the fund or the fund's investment advisor.

Collection would be problematic if the tax were applied broadly to funds with no presence in Maryland that have shareholders in Maryland. Out-of-state asset managers and funds would not know how many of their investors were Maryland residents and what tax would be assessed and potentially due. Easily-collectible tax might be limited to those Maryland investors who purchase fund shares directly from managers with operations in Maryland. This result would be bad for Maryland because it would disadvantage fund managers operating in Maryland compared to fund managers located elsewhere.

If the location of the sale was determined based on the location of the fund's asset manager (or where it has employees), or the fund's state of incorporation, the tax would apply only to funds incorporated in or managed by asset managers with operations in Maryland and would be based upon the full cost of the service. This would increase expenses of funds managed from or operating in Maryland and would put these funds and their asset managers at a distinct competitive disadvantage both in the US market and globally.

If the location of the sale was determined based on the location of the fund's investors (shareholders), the tax could theoretically be charged to all funds regardless of whether they were managed or operated in Maryland or elsewhere, based on the portion of each fund's shareholders based in Maryland. Three problems would arise from this approach.

First, significant difficulties arise in collecting tax from fund managers located outside of Maryland. Second, as described above, fund managers often do not know their shareholders' states of residence. Determining residence would result in additional costs—all of which would be borne by the funds' shareholders. Third, even if the tax could be charged to and collected from asset managers nationwide, based on the shareholder location, the tax would not be borne only by the funds' Maryland shareholders. Funds cannot allocate expenses to specific shareholders based upon residence or any other criteria (other than share class). Although the tax might be "charged" for services "provided" in Maryland, the tax burden would fall equally on all investors, wherever they reside.

Finally, sales tax on business-to-business transactions are harmful and can result in multiple cascading taxation of the same revenue without appropriate exemptions. ICI opposes sales taxes on business-to-business transactions, for the same reason described by COST, in the attached comment letter, which may be revised and resubmitted by COST. ICI won't duplicate those comments here but will raise one additional point about the duplicative nature of business-to-business taxes in the asset management industry. Many funds are sub-advised, which means that the fund contracts with and pays a primary asset manager, who then separately contracts with and pays a secondary asset manager (sub-advisor) to manage a portion of the portfolio. A single fund can have multiple sub-advisors, and a sub-advisor can also contract with additional sub-advisors (sub-sub-advisors). In these scenarios, a single asset management fee could be taxed multiple times, compounding the tax burden that is ultimately borne by the fund's shareholders. Similar duplicative taxation could apply to transaction between affiliates of the asset manager.

In closing, we oppose the proposed expansion of sales tax to asset management services and other financial services.

* * * * * * *

The ICI appreciates your consideration of our concerns. Please do not hesitate to contact Mike Horn at michael.horn@ici.org or (202) 326-5832 or Katie Sunderland at katie.sunderland@ici.org or (202) 326-5826 if you have any questions regarding this letter or would like any additional information regarding the organization, operation, or taxation of funds and their shareholders.

Sincerely,

Mike Horn

Mike Horn

Deputy General Counsel - Tax Law

Katie Sunderland

Katie Sunderland

Associate General Counsel – Tax Law

cc:

Speaker of the House Adrienne A. Jones
H-101 State House
100 State Circle
Annapolis, MD 21401

Senate President Bill Ferguson
H-107 State House
100 State Circle
Annapolis, MD 21401

COST

COUNCIL ON STATE TAXATION

Stephanie T. Do
Tax Counsel
(202) 484-5228
SDo@cost.org

March 2, 2020

Maryland General Assembly
House Ways and Means Committee

Re: COST's Opposition to House Bill 1628, Sales and Use Tax – Rate Reduction and Services

Dear Chair Kaiser, Vice Chair Washington, and Members of the Committee:

Thank you for the opportunity to provide testimony today on behalf of the Council On State Taxation (COST) in opposition to House Bill 1628 (H.B. 1628), Sales and Use Tax – Rate Reduction and Services, which would inappropriately expand the application of Maryland's sales tax to many business inputs without an exemption for business-to-business transactions. Business inputs constitute intermediate, not final, goods and services because companies either resell these goods and services or use the materials, products, machinery and services to produce other goods or services that subsequently are sold to households.

COST does not generally oppose legislation that broadens a state's sales tax base to business-to-*consumer* transactions. However, H.B. 1628's proposed sales tax expansion to include services—many of which are predominantly provided to businesses, without providing an exemption for business inputs—directly violates the economic principle that an ideal sales tax should tax household consumption and not business inputs.[1]

If this legislation passes, Maryland would be the first state in decades—and the only large population state ever—to impose such an expansive sales tax on business inputs. There are only a few smaller-population and non-industrialized states that long ago enacted a broad-based sales tax on services ((*e.g.*, South Dakota, Hawaii, and New

[1] *See* Andrew Phillips and Muath Ibaid, Ernst & Young LLP, "The Impact of Imposing Sales Taxes on Business Inputs," prepared for the State Tax Research Institute and the Council On State Taxation (May 2019), available at: https://www.cost.org/globalassets/cost/stri/studies-and-reports/1903-3073001_cost-ey-sales-tax-on-business-inputs-study_final-5-16.pdf; John L. Mikesell, "Reversing 85 Years of Bad State Retail Sales Tax Policy," State Tax Notes (February 4, 2019); Robert Cline, Andrew Phillips and Tom Neubig, Ernst & Young LLP, "What's Wrong with Taxing Business Services? Adverse Effects from Existing and Proposed Sales Taxation of Business Investment and Services," prepared for the Council On State Taxation (April 4, 2013), available at: https://cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/sales-taxation-of-services-and-business-inputs-study.pdf; Analysis of Proposed Changes to Select Ohio Taxes Included in the Ohio Executive Budget and Ohio House Bill Number 64, issued in 2015, available at: https://cost.org/globalassets/cost/stri/studies-and-reports/analysis-of-proposed-changes-to-select-ohio-taxes-included-in-the-ohio-executive-budget.pdf.

Mexico). One can hardly imagine a worse signal to the national business community, demonstrating that Maryland is business unfriendly and not competitive.

Historically, most states, including Maryland, have included in their sales tax base a broad range of goods, but only a limited range of services. With the rapid growth of the services sector in recent decades, it is understandable why a state would want to expand its sales tax base to include more service categories. However, H.B. 1628 expands the sales tax base not only to include a wide range of services consumed by households, but also to an even wider range of services consumed by businesses. In recent years, there have been similar broad-based proposals in several states such as Louisiana, Minnesota, and Ohio to significantly expand the sales tax to include services, and the share of the additional tax that would be imposed on business inputs was estimated to be as high as 80%.[2] The disproportionate burden that would be imposed on businesses by H.B. 1628 has been acknowledged by the Maryland Department of Legislative Services. In its Fiscal and Policy Note on H.B. 1628, the Department reached the following conclusion: "It should be noted that many of the categories of services that are estimated to generate significant revenue under the bill, including business services, professional services, and information services, are services that are largely consumed by businesses."[3]

The Maryland Department of Legislative Services also noted the historic failure of all other sales tax base broadening proposals that included a wide range of business services, compared with the more incremental approach taken by many other states that limited the base expansion largely to services purchased by households: "A number of states, including Louisiana, Massachusetts, Michigan, Nebraska, Pennsylvania, and Utah, have proposed significantly broadening their sales tax bases, including to professional services, but none have been successful. Meanwhile, Connecticut, the District of Columbia, Iowa, Kentucky, and North Carolina have taken incremental steps to broaden the application of their sales and use taxes to additional services."[4]

Maryland would do well to heed the lessons of other state efforts to broaden the sales tax base and limit the expansion to household services only. To do otherwise, will encumber the State with a draconian expansion of the sales tax base to business inputs and make Maryland an outlier among all states in terms of its divergence from the principles of a fair and efficient sales tax. This, in turn, will undermine all of the State's efforts to raise revenues for state and local government programs while still fostering a healthy environment for business investment and job growth. While we understand that the legislative intent of H.B. 1628 is to broaden the base and lower the sales tax rate, the proposed rate reduction does not mitigate COST's concerns regarding the expansion of the tax base to business-to-business transactions.[5]

About COST

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an

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[2] Cline, Phillips, Neubig, "What's Wrong with Taxing Business Services? Adverse Effects from Existing and Proposed Sales Taxation of Business Investment and Services," 15-17.

[3] Department of Legislative Services, Maryland General Assembly, "Fiscal and Policy Note" on House Bill 1628, 5, available at: http://mgaleg.maryland.gov/2020RS/fnotes/bil_0008/hb1628.pdf.

[4] *Id.* at 4.

[5] Businesses will certainly benefit from the sales tax rate reduction on the business inputs that are currently taxed under Maryland law. But since the business share of purchased services included in sales tax base broadening legislation is generally much larger than the business share of purchased goods subject to sales tax, H.B. 1628 is likely to lead to a substantial net increase in sales tax paid by businesses in Maryland.

advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 550 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

Policy Against Imposing State Sales Tax on Business Inputs

The COST Board of Directors has adopted a formal policy position opposing the imposition of state sales tax on business inputs, which provides.[6]

> *Imposing sales taxes on business inputs violates several tax policy principles and causes significant economic distortions. Taxing business inputs raises production costs and places businesses within a State at a competitive disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.*

H.B. 1628 is inconsistent with creating a more efficient and modern sales tax system. Imposing sales tax on business inputs specifically violates the tax policy principles of neutrality, equity, simplicity and transparency, and it causes significant economic distortions. Taxing business inputs is inconsistent with the rationale for a sales tax designed to operate as a tax only on final household consumption; because businesses are not the final consumers of business input purchases, the sales tax should not apply to their purchases.[7]

Notably, these distortions result primarily from pyramiding. Pyramiding occurs when a tax is imposed at multiple levels that results in a hidden effective tax rate that exceeds the retail sales tax rate. Pyramiding forces companies to either pass these increased costs on to consumers or reduce their economic activity in the State to remain competitive with other producers who do not bear the burden of such increased taxes. Because of these choices, the economic burden of taxes on business inputs inevitably shifts to labor in the State (through lower wages and employment) or consumers (through higher prices).

H.B. 1628 would create other significant adverse economic distortions from the current taxation of business purchases in Maryland. For example:

- Taxing business inputs encourages companies to self-provide business services to avoid the tax rather than purchasing them from more efficient providers and paying tax (vertical integration);

- Taxing business inputs places companies selling in international, national and regional markets at a competitive disadvantage to many of their competitors, leading to a reduction in investment and employment in the State;

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[6] Available at: https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/sales-taxation-of-business-inputs.pdf.

[7] Andrew Phillips and Muath Ibaid, Ernst & Young LLP, "The Impact of Imposing Sales Taxes on Business Inputs," prepared for the State Tax Research Institute and the Council On State Taxation (May 2019), available at: https://www.cost.org/globalassets/cost/stri/studies-and-reports/1903-3073001_cost-ey-sales-tax-on-business-inputs-study_final-5-16.pdf.

- Taxing business inputs unfairly and inefficiently taxes some products and services more than others by imposing varying degrees of tax on inputs in addition to a general tax rate on final sales;

- Taxing business inputs unfairly hides the true cost of government services by embedding a portion of the sales tax in the final price of goods and services; and

- Taxing business inputs increases administrative and compliance costs for tax administrators and taxpayers.

Finally, sales taxes on business services, in particular, create significant cost disadvantages for small businesses. Small businesses are often less likely than large businesses to be able to vertically integrate. Without the means to compete with larger businesses that can vertically integrate and internalize certain costs, the demand for services provided by small businesses is reduced. Moreover, increased administrative and compliance costs are another strain for small businesses to absorb.

H.B. 1628 Would Undo Much of the Benefit of Maryland's Legislative Shift to a Single Sales Factor

Ironically, Maryland's recent tax policy has moved in a diametrically opposite direction with regard to understanding the importance of providing a tax structure that encourages in-state production and investment. For corporate income tax purposes, Maryland has recognized the value of relying on consumption rather than production tax principles as a central tenet of sound tax policy by shifting the apportionment formula for its corporate net income tax to rely almost wholly on the sales factor. By removing the property and payroll factors from the corporate apportionment formula, Maryland is taxing businesses not based on the jobs or investment in the State, but only based on their proportion of sales into the State. To then turn around and enact sweeping sales tax base broadening legislation, the burden of which will fall largely on businesses, will move Maryland in the exact opposite direction, penalizing businesses for investing, making purchases, and creating jobs in Maryland.

H.B. 1628 Would Negatively Impact Maryland's Sales Tax Scorecard Grade

In April 2018, COST released a Scorecard evaluating "The Best and Worst of State Sales Tax Systems."[8] The Sales Tax Scorecard graded states on the administration of their respective state and local sales and use taxes. Like other COST scorecards, it is meant to help improve tax administrative systems which will ultimately increase compliance. The Sales Tax Scorecard objectively evaluates state statutes and administrative rules that govern the administrations of the states' sales taxes by the states' taxing agencies. COST's scorecards are ultimately directed at policymakers, who are in the best position to make improvements to the state's sales tax through statutory changes. In the Sales Tax Scorecard, COST considered the following categories:

- The extent of taxation of business inputs or pyramiding of the sales taxes;

- Fair sales tax administrative practices;

[8] Available at: https://cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/the-best-and-worst-of-state-sales-tax-systems-august-17-2018-final.pdf.

- Uniformity of state and local sales tax bases and centralized administration;
- Simplification and transparency of the sales tax;
- Reasonable tax payment and credit administration; and
- Fair audit and refund procedures.

Considering these categories, Maryland received a "C" grade. If H.B. 1628 passed, however, Maryland's grade would definitely be impacted adversely. Specifically, its grade would likely be lowered to a "D+," significantly lowering its ranking amongst the other states to become one of the lowest ranked states. H.B. 1628 would directly impact Maryland's score in the categories evaluating the taxation of business inputs and pyramiding of the sales tax. H.B. 1628 will significantly increase Maryland's percentage of state and local sales tax derived from business-to-business transactions, which currently is estimated at 42 percent. By way of comparison, South Dakota and New Mexico, two of the states that tax the broadest range of services (without exemptions for business inputs), also have the highest share of state and local sales taxes derived from taxing business inputs at 58 percent and 60 percent, respectively.

For these reasons, COST urges members of the Committee to please vote "no" on H.B. 1628.

Respectfully,

Stephanie T. Do

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director

OPPOSE-HB1554.pdf
Uploaded by: Linda Diefenbach
Position: UNF

HB1554 OPPOSE Sales and Use Tax - Taxable Business Services - Alterations

Dear Ways and Means committee. I am writing to let you know that as a Maryland citizen, I STRONGLY oppose this bill. It is getting more and more difficult to afford living here.

Better suggestion: Cut spending in Maryland.

This deficit fix should not be placed on Maryland citizens. This bill will hurt all of us.

Sincerely,
Linda Diefenbach
Middletown, MD
Frederick County

ProShares SB 1045.pdf
Uploaded by: Mara Shreck
Position: UNF

ProShares

ProShare Advisors LLC
7272 Wisconsin Avenue, 21st Floor
Bethesda, MD 20814-4802

240.497.6400
ProShares.com

March 10, 2025

Delegate Vanessa Atterbeary, *Chair*
Delegate Jheanelle Wilkins, *Vice Chair*
Ways and Means Committee
House Office Building, Room 130, Annapolis, MD

Senator Guy Guzzone, *Chair*
Senator Jim Rosapepe, *Vice Chair*
Budget and Taxation Committee
West Miller Senate Building, Room 3, Annapolis, MD

Re: SB 1045 & HB 1554: Sales Tax on Additional Services

Dear Chairman Atterbeary, Chairman Guzzone, Vice Chair Wilkins, and Vice Chair Rosapepe:

ProShare Advisors LLC and its affiliated entities ("ProShares") strongly oppose SB 1045 and HB 1554, which expands the sales tax on services to additional services, for the reasons set forth in more detail in the submission of the Investment Company Institute, dated March 10, 2025.

ProShares is an SEC-registered investment adviser based in Bethesda, MD. It currently employs approximately 120 people in Maryland, and manages over $80 billion in a wide range of mutual funds and exchange-traded funds. As the ICI letter explains, the proposed legislation would expand the definition of taxable services to include many financial services,[1] including investment advice and asset management services, among other services. We oppose these changes on three grounds:

- First, sales tax should not be applied to or incurred by shareholders and other investors saving for important financial goals.
- Second, asset managers in Maryland should not be placed at a competitive disadvantage to out-of-state competitors.
- Third, applying sales tax to asset management services would be extraordinarily difficult (if not impossible) to implement and administer efficiently and fairly.

ProShares appreciates your consideration of our concerns. Please do not hesitate to contact me at mshreck@proshares.com or (240) 497-6543 if you have any questions regarding this submission or would like any additional information.

Very Truly Yours,

/s/ Mara L. Shreck

Mara L. Shreck
Head of Corporate Affairs

[1] As defined by reference to NAICs code 5239 (Other financial investment activities). https://www.naics.com/naics-code-description/?v=2017&code=5239.

Maureen Wambui - Testimony in Opposition to HB1554
Uploaded by: Maureen Wambui
Position: UNF

Maureen Wambui

7827 Rolling View Ave, Nottingham, MD, 21236

Maureen.w.m.2030@gmail.com

03/10/2025

The Honorable Members of the House Committee on Ways and Means

Maryland General Assembly, Annapolis, MD 21401

Testimony in Opposition to HB1554 - Sales and Use Tax - Taxable Business Services - Alterations

Hearing Date: March 12, 2025

Chairperson and Esteemed Members of the Committee,

My name is Maureen Wambui, and I am a proud Immigrant, Community advocate and

resident of Legislative District 8 in Maryland. Thank you for the opportunity to provide testimony in strong opposition to **HB1554**, a bill that would expand Maryland's sales and use tax to various business-to-business (B2B) services. As a financial industry professional and advocate for small businesses, particularly in minority communities, I urge this committee to reject this proposal due to its harmful economic consequences.

Increased Costs for Small Businesses

This bill will significantly increase operational costs for Maryland's small businesses, many of which are already struggling to keep up with rising expenses. Entrepreneurs rely on essential services like accounting, marketing, consulting, and IT support to sustain and grow their operations. By imposing additional taxes on these services, the state will make it more difficult for small businesses to remain competitive, forcing them to either absorb the extra costs or pass them on to their customers.

Unnecessary Administrative Burden

The expanded tax requirements under HB1554 would create an added layer of complexity for businesses that already face extensive regulatory and financial challenges. Many small businesses lack dedicated accounting teams and would now have to navigate additional tax compliance issues, increasing the risk of errors and penalties. Rather than fostering an environment where small businesses can thrive, this bill would place unnecessary bureaucratic roadblocks in their path.

Risk of Economic Slowdown

At a time when Maryland is working to attract businesses and spur economic development, implementing a tax on B2B services could have the opposite effect. Companies may choose to outsource these services to states with lower tax burdens, reducing revenue for local businesses and potentially leading to job losses. Additionally, this tax could deter new businesses from establishing themselves in Maryland, stunting economic growth.

Negative Impact on Professional Services and Innovation

Industries that drive innovation, such as IT, consulting, and digital marketing, would be disproportionately affected by this tax. These services are essential for businesses to scale and compete in today's economy. By imposing a tax burden on these critical sectors, Maryland risks reducing access to the very services that enable businesses to innovate and expand.

Disproportionate Harm to Minority Owned Businesses

Many minority and immigrant entrepreneurs operate small service-based businesses that would be directly impacted by HB1554. These business owners often work within tight financial margins and depend on professional services to grow their enterprises. Imposing additional taxes on the very services they rely on will disproportionately harm the very communities that contribute to Maryland's economic diversity and vibrancy.

Instead of imposing additional tax burdens on businesses, Maryland should focus on policies that promote economic growth, job creation, and entrepreneurship. The revenue generated from this tax does not justify the long-term economic damage it could cause. For these reasons, I respectfully urge this committee to vote **NO** on HB1554.

Thank you for your time and consideration.

Respectfully submitted,

Maureen Wambui.

House Testimony.pdf
Uploaded by: Samuel Luxenburg
Position: UNF

luxenburg &bronfin CERTIFIED PUBLIC ACCOUNTANTS

To: State Delegates
Committee: Ways & Means
Bill: HB1554
Date of Hearing: March 12, 2025

From: Shmuel Luxenburg, CPA
E-mail: sam@landbcpa.com
Cell: 443-310-5462

Dear Honored Representative,

If my method of addressing your gathering is not in line with protocol, please accept my humblest of apologies.

I am not an individual who is of strong vocal opinion and certainly not one to lobby complaints about our great State. I have, however, reached a point where I can no longer remain silent in the face of what so many consider to be a constant assault on the finances of taxpayers. While I strongly considered raising my concerns via virtual testimony, I opted for written testimony for fear that my frustrations would lead to my inability to properly express my thoughts and opinion on this matter.

It cannot be taken lightly that your hearing on this proposal is occurring during the busiest time of year for those that it impacts most. I find the disconnect to be glaring. I would like anyone reading this to note that I have carved out time from a 60 hour workweek to express my displeasure that a Bill such as this one, at a time of nearly unprecedented rising costs, could even be considered.

As a CPA, I work hand in hand with my clients and their businesses in an effort to operate in an efficient and responsible fashion. This is done so in order to ensure profitability. In private industry this is a must, as failure does not allow a business owner to simply take funds from the bank account of others to cover their shortfall. In the scenario of a business expending more than it collects, it is fairly obvious that their doors will need to close. Unfortunately, attaining profitability has become increasingly challenging in the face of rising costs for nearly every line item on the expense side of the "P&L". This holds true for individual taxpayers as well.

Our esteemed Governor stated during the 2025 opening session that he would avoid tax increases and budget cuts, focusing instead on growing the State's economy. Governor Moore stated that "anyone who simply thinks you can tax your way to prosperity doesn't know what they're talking about". The proof to this accurate statement comes from the fact that a number of States which border ours have a budget surplus while we face a $3B shortfall that is projected to grow to $6B in five years. Delaware has a surplus without the "benefit" of a sales tax! So I ask you, what are we doing wrong in Maryland and how is it corrected? Do we correct this by taxing more vital services, thereby continuing to drive out taxpayers and businesses from our State? When and how does this end?

I would be very happy to further discuss this specific Bill, or other matters indirectly related to this bill such as the incredible difficulties CPA's experience with reporting to the State on various levels. The latter has made the CPA a dying profession in our State, and I believe that this proposed Bill will be the nail in the coffin.

I greatly appreciate your willingness to consider the words of Maryland taxpayer, CPA and business owner.

opposed bill.pdf
Uploaded by: Sherrill Butler
Position: UNF

House Bill 1554

Chair Vanessa E. Atterbeary

House Ways and Means Committee

130 Taylor House Office Building

Annapolis, Maryland 21401

Senate Bill 1045

Chair Guy Guzzone

Senate Budget & Taxation Committee

3 West Miller Senate Office Building

Annapolis, Maryland 21401

Dear Legislators:

I am writing to OPPOSE House Bill 1554/Senate Bill 1045: Sales and Use Tax – Taxable Business Services – Alterations. I am the Director of Nursing of Levindale Geriatric Hospital and Nursing Home. We provide care services to the most vulnerable underserved geriatric community. These services consist of Long-Term Care, Skilled Rehabilitation, Chronic ventilation, and Ventilation Waning. We offer services regardless of payor sources to make sure that there is no care needs unmet within our community. If this bill is passed, it would affect the services that we provide are able to provide to our most vulnerable resident community.

Thanks

Sherrill Butler-Williamson

2025 HB1554 Opposition to B2B Tax.pdf
Uploaded by: Susan Jones
Position: UNF

HMRA
OCEAN CITY, MARYLAND
HOTEL • MOTEL • RESTAURANT • ASSOCIATION

March 10, 2025

Committee: House Ways and Means Committee - **House Bill 1554**

Position: Opposed

Dear Chairwoman Atterbeary and Members of the Committee,

On behalf of our 450 hospitality members, I am writing to strongly oppose House Bill 1554, which seeks to expand Maryland's sales and use tax to essential business-to-business (B2B) services. This proposal would impose a new 2.5% tax on a wide range of critical services that businesses depend on daily, including accounting, IT support, consulting, and more.

While we recognize Maryland's budget challenges, implementing a B2B service tax is a short-term solution that would create long-term economic and competitive disadvantages for the state. Small businesses depend on outsourced professional services for essential functions like accounting and technology support. This tax would impose thousands in additional annual costs on businesses already facing economic pressures, potentially forcing them to raise prices, reduce staff, or scale back growth investments.

Small businesses rely on outsourced professional services for critical functions like accounting and technology support. This tax would add thousands in new annual costs, putting additional strain on businesses already facing economic challenges and potentially forcing them to raise prices, cut jobs, or limit growth investments.

Once implemented, this tax structure could easily expand to additional service categories or see rate increases. While the current proposal targets specific services at 2.5%, future budget shortfalls could lead to higher rates or an extension of the tax to essential services such as legal, real estate, or healthcare.

While we support efforts to strengthen Maryland's fiscal stability, the best way to address budget challenges is by promoting policies that drive business growth and economic expansion. A thriving business community naturally boosts tax revenue through job creation and increased economic activity.

I urge you and the members of the General Assembly to carefully consider the impact of this legislation, oppose HB 1554, and champion policies that foster a strong and thriving business environment in our state.

Sincerely,

Susan L. Jones

Susan L. Jones, Executive Director

5700 COASTAL HWY #302 • OCEAN CITY • MARYLAND • 21842

410-289-6733 • FAX 410-289-5645 • OCVISITOR.COM • INQUIRE@OCVISITOR.COM

Opposition to HB 1554 -SB 1045.pdf

Uploaded by: Ty DeMartino

Position: UNF

Ty DeMartino
80 West Main Street
Frostburg, MD 21532
301.707.5012
tydemartino@yahoo.com

March 10, 2025

To Members of the Legislature:

This letter is to express my opposition to **HB 1554/SB 1045** that would create a new 2.5% tax on essential business services including marketing and public relations in the State of Maryland. Of course, when you directly target a group of marketing professionals, they KNOW how to get the word out.

I received several calls and emails from my marketing/PR colleagues here in Western Maryland, one of the poorest areas in the State. As a lifelong resident of Maryland, I have worked as a marketing/publication specialist for most of my career. Many of those years have been working in a freelance (1099) capacity. This new tax would further harm freelancers who are already struggling in a work environment threatened by AI advances and those believing that “anyone with editing software on their phone” can create a marketing video.

Living in Western Maryland, my personal services are used to create tourism marketing videos to attract individuals to our area and its offerings. Some of my videos have won awards and increased visitors from out-of-state. The other half of my time is used to help promote community organizations that want to showcase their services, which are often -- and not to sound *too* dramatic -- life-saving. I’ve created videos for school lunch programs for youth, those struggling with addiction, services for the elderly and other at-risk communities. Of course, being in an economically challenged area, my colleagues and I do not charge outrageous pricing for our services. This additional tax will definitely affect our incomes and make us reconsider offering our services. Why should we be punished for helping our neighbors <u>and our State</u>?

While the list includes many other services that will receive this extra 2.5% tax (*Accounting, payroll and bookkeeping services; Office administrative support services; IT services, data processing and web hosting; Employee and contractor placement services; Consulting services; Scientific and development services; Photography, design and printing services; Landscaping and property maintenance; Repair services for electronics, machinery and vehicles; Financial planning and tax preparation; Non-real estate appraisal services; and Valet and parking services*), I can only speak on behalf of the PR/marketing professionals. But in reviewing this list, it <u>does</u> feel like you’re picking on the “little guy” in many of these instances. Valet parking attendants??? Come ON! Please reconsider.

On behalf of myself and the other marketing/public relations professionals from Western Maryland, I implore you -- **<u>DO NOT PASS HB 1554/SB 1045</u>.**

Sincerely,

Ty DeMartino
Frostburg, Maryland

HB 1554 - Letter of Information (letterhead).pdf

Uploaded by: Matthew Dudzic

Position: INFO

COMPTROLLER of MARYLAND
SERVING THE PEOPLE

Brooke E. Lierman
Comptroller

Matthew Dudzic
Director, State Affairs

Letter of Information

House Bill 1554 – Sales and Use Tax – Taxable Business Services – Alterations
Ways and Means Committee
March 12, 2025

The Office of the Comptroller is respectfully submitting this letter of information regarding House Bill 1554, Sales and Use Tax – Taxable Business Services – Alterations. HB1554 establishes a statewide business-to-business tax of 2.5% on certain services. As the state agency that will be responsible for implementing this tax, we are providing this letter to review what is needed to operationalize HB1554 and explore the proposed timeline.

While implementing a new tax is a complex process, barring unforeseen circumstances the Office of the Comptroller will be able to implement the tax proposed under HB1554 by the bill's effective date of July 1, 2025. Doing so, however, will require the reprioritization of some existing staff and additional resources, including five temporary call center representatives for six months to cover anticipated increased registrations (approximately $215,000; one-time cost) and three positions within Revenue Operations & Administration (one processor and two auditors; approximately $230,000, ongoing cost). Further, the existing contract for our tax system will require modification at an estimated cost of $400,000 (one-time cost).

Implementing HB1554 will require adding a new line to the SUT forms (both Maryland Tax Form 202 and 202F), programming across multiple business services vendors, and updating our regulations and guidance documents. We will also need to update our IT system and our online portal, Maryland Tax Connect, including both development and testing.

Several aspects of this proposal contribute to the agency's ability to implement it by July. First, the proposal is a single rate, rather than a variable rate based on the service type. Second, there are no special schedules. Third, there are no special revenue distributions. Fourth, this is largely a modification and expansion of the existing sales and use tax (SUT), rather than a truly new tax type. These four factors reduce many of the complications associated with bringing on new taxes, and it is important to retain these pieces as the bill is considered if the goal is to bring this program on by July.

If you have any questions, please do not hesitate to contact Matthew Dudzic, Director of State Affairs, at MDudzic@marylandtaxes.gov.