



TO: The Honorable Anne R. Kaiser, Chair
Members, House Ways and Means Committee
The Honorable Eric G. Luedtke

FROM: Richard A. Tabuteau
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DATE: March 2, 2020

RE: **OPPOSE** – House Bill 1628 – *Sales and Use Tax – Rate Reduction and Services*

The Maryland Tech Council is a collaborative community, actively engaged in building stronger life science and technology companies by supporting the efforts of our individual members who are saving and improving lives through innovation. We support our member companies who are driving innovation through advocacy, education, workforce development, cost savings programs, and connecting entrepreneurial minds. The valuable resources we provide to our members help them reach their full potential making Maryland a global leader in the life sciences and technology industries. On behalf of Maryland Tech Council, we submit this letter of **opposition** for House Bill 1628.

House Bill 1628 imposes the State sales and use tax on all services, except for specified services, by expanding the definition of taxable service. The bill also reduces the general State sales and use tax rate from 6% to 5% for taxable goods and services. According to Appendix 1 of the Fiscal and Policy Note, Business Services is defined to include data/IT services (including consulting, design and training); basic & applied research services; and design/printing services, among other things. Information Services is defined to include publishers - sale of advertising space (including online); licensing of media/software rights and other intellectual property; and publishing - software and internet subscriptions and sales. Based on the analyst's projections, taxed Business Services would result in revenues of \$794.9M in FY2021, \$1,936.5M in FY2022, \$2,216.2M in FY2023, \$2,282.7M in FY2024, and \$2,351.1M in FY2025. Taxed Information Services would result in projected revenues of \$49.4M in FY2021, \$120.4M in FY2022, \$137.8M in FY2023, \$142.0M in FY2024, and \$146.2M in FY2025.

The overwhelming majority of States do not tax business services. Among the very few that do, South Dakota and Washington counterbalance their service tax by not having personal income tax. South Dakota also has one of the lowest sales tax rates in the country. New Mexico's income tax ranks in the bottom 20 in the country.

Many of Maryland Tech Council's 465 biotech and information technology (IT) member companies are already actively courted by various Virginia-based economic development organizations. In addition, the vast majority of IT services can be procured anywhere in the world. As such, Maryland IT companies could lose a tremendous amount of potential business to their out-of-State competitors, who are not subject to such a tax. To remain competitive, a Maryland IT company could try to move employees to Virginia, and have those employees perform the work for non-Maryland clients. In such an unfortunate scenario, Maryland would not only fail to collect the contemplated service tax revenue but would also lose corporate and individual income tax revenue.

That being said, the Maryland Tech Council understands the urgent need to find revenue to fund improvements to Maryland's education system. In fact, our member companies rely on Maryland having a highly educated, trained, and talented workforce to remain competitive in the areas of biotechnology, life sciences, IT, and

cybersecurity. That is why, we are instead urging the House Ways & Means Committee to advance either Madame Chair Kaiser's *House Bill 765: Maryland Tax Revision Commission*, Madame Vice Chair Dumais' *House Bill 185: Commission on Tax Policy, Reform, and Fairness*, or Delegate Buckel's *House Bill 436: Task Force on Tax Policy, Reform, and Fairness*.

The last time Maryland took a comprehensive approach to tax reform was in 1987 with the appointment of the Commission on State Taxes and Tax Structure, known as the Linowes Commission after its chairman, Montgomery County attorney R. Robert Linowes. In December 1990, the Washington Post wrote, "[T]he work of the Linowes Commission is extraordinary in its scope and right in its hope to restructure the state tax system for the first time in two decades. The report should be accepted as a valuable working document and starting point for legislators willing to tackle this important issue seriously." Without a 21st century Commission, we lack a responsible format to carefully evaluate Maryland's current tax structure and judiciously consider potential reforms to improve it and raise revenue.

For the foregoing reasons, the Maryland Tech Council urges the House Ways and Means Committee to give House Bill 1628 an unfavorable report, but to instead give a favorable report to either *House Bill 765: Maryland Tax Revision Commission*, *House Bill 185: Commission on Tax Policy, Reform, and Fairness*, or *House Bill 436: Task Force on Tax Policy, Reform, and Fairness*.

For more information call:

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