

TESTIMONY IN OPPOSITION OF HB1628 Sales and Use Tax - Rate Reduction and Services

My name is Bob Roswell, Co-Founder and Co-Owner of System Source, a 39 year-old computer services company with offices in Hunt Valley and Columbia. We sell computer hardware and software, but the bulk of our revenue and all of our profits are from our IT services. Some of our services are offered at the customer's location, some in our facilities, and much of the work is performed remotely utilizing high speed internet connections. Most of our customers have locations in and out of Maryland.

I am here to raise questions about the implementation and implications of a services tax. Until these questions are resolved, I believe it is premature/ill advised to create a tax that may lead to a mass exit of businesses from Maryland.

Multiple Levels of Taxation: Product sales are taxed once. Inventory purchased for resale is not taxed. How does that translate for services? We regularly hire subcontractors for advanced security work, to meet MBE targets, to teach specialized classes, etc. Presumably they would need to charge us a 5% services tax, then we would charge another 5% to our customer, who may then have to charge 5% for the ultimate consumer. It is possible to solve this problem with a European style VAT tax, but I would love to understand how to solve it in a sales tax environment.

Our customers' problems and our solutions move at the speed of light (through fiber optic cables): Most of our services are provided remotely. Our customers have branches and subsidiaries all over the United States. How would we determine the tax on a fixing a problem that affects both in-state and out-of-state servers and clients? Many of the servers provide services to a wide variety of business, government, non-profit, and educational users. Conversely, a single solution often involves computers in multiple states.

Use Tax: Will Maryland customers have to pay a services tax on services that they purchase from out-of-state providers?

Inter-Company expenses: Our real estate company (overlapping ownership with System Source) owns our headquarters building. The operating company (which has employees!) manages the building for System Source and our other tenants. Would we have to charge sales tax from one entity to another?

Educational Services: We operate 14 classrooms in Hunt Valley and Columbia for computer training. The training does not lead to a degree. (Classes are 1-5 days.) Will that training be exempt?

Outsource vs Insource: One of the great things about a healthy business ecosystem is the ability to hire people in one's core business areas, and then outsource other functions to specialists. The 5% services tax (and probably more due to the multiple layers of taxation above) incentivizes businesses to insource their non-core competencies to avoid the services tax. The effects of insourcing will reduce Maryland firm's competitiveness.

For these reasons, I ask for an UNFAVORABLE REPORT on HB1628.

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