

March 2, 2020

Hon. Anne R. Kaiser
House Office Building, Room 131
6 Bladen St., Annapolis, MD 21401

RE: H.B. 1628- Sales and Use Tax - Rate Reduction and Services - OPPOSED

Dear Chair Kaiser:

The Financial Services Institute (FSI)¹ and its membership welcome the opportunity to comment on H.B. 1628, which calls for the taxation of professional services including, notably, financial planning and investment advice. While FSI appreciates that this bill was offered to meet the need to invest in the education of Maryland's youth, we must strongly oppose the tax as harmful to the state's lower- and middle-class investors, who themselves are saving for their childrens' higher education and success.

BACKGROUND ON FSI

FSI represents the independent financial services community. More specifically, FSI advocates on behalf of independent financial services firms and their affiliated independent financial advisors. In the U.S., there are more than 160,000 independent financial advisors, which account for over 60% of all producing registered representatives.² These financial advisors are self-employed independent contractors, rather than employees, of the independent financial services firms, or independent broker-dealers.

FSI members in Maryland support \$1,004.4 million of economic activity in the state. This activity, in turn, supports 9,413 jobs including direct employees, those employed in the FSI supply chain (indirect), and those supported in the broader economy (induced). In addition, FSI members contribute nearly \$51 million annually to state and local government tax collections. FSI members account for approximately 9.7% of the total financial services industry contribution to Maryland's economic activity.

DISCUSSION

Taxing financial planning and investment advisory service would place a significant financial burden on Maryland residents by penalizing those who make the responsible decision to

¹ The **Financial Services Institute (FSI)** is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has successfully promoted a more responsible regulatory environment for more than 100 independent financial services firm members and their 160,000+ affiliated financial advisors – which comprise over 60% of all producing registered representatives. We effect change through involvement in FINRA governance as well as constructive engagement in the regulatory and legislative processes, working to create a healthier regulatory environment for our members so they can provide affordable, objective advice to hard-working Main Street Americans. For more information, please click [here](#).

² Cerulli Associates, Advisor Headcount 2016, on file with author.

seek professional advice in planning for their financial future. The burden would fall most disproportionately on those with modest assets and who can ill-afford to see their hard-earned savings diminished.

Savers and investors today have many options, including “going it alone” and managing their own portfolio. In an increasingly complex and often volatile marketplace, those who forego professional advice are taking a significant risk. Moreover, they may be more vulnerable to fraud and other schemes that could diminish or wipeout a lifetime of savings. Financial planners and advisors help savers avoid common, but costly, errors like making early withdrawals from retirement plans, making “emotional” investment decisions, and losing sight of long-term goals. The current market volatility related to the Corona virus underscores the importance of professional advice that can help investors plan for, and mitigate the risks posed by, market shocks.

State legislators should be taking steps to encourage investors to seek out personalized financial planning and advisory services. Obtaining professional help to assist planning for a secure retirement, a child’s education, or the care of aging parents is just good sense and should be incentivized. Unfortunately, H.B. 1628 does just the opposite by creating illusory financial incentives for Maryland residents to invest on their own, without the benefit of the personalized advice provided by financial advisors. In today’s complex marketplace, this is poor public policy.

Additionally, the tax places an unnecessary obligation on FSI’s independent advisors, who operate small businesses. Collecting taxes will create a significant burden and cost for financial advisors who are unaccustomed to assessing taxes on the services they provide. Fees paid by investors can be for a variety of purposes, adding to the complexity for investors and advisors. For example, an advisor may recommend a mutual fund that has fees built in. It would be extremely burdensome for the fund to assess the tax on Maryland residents only, and perhaps even more difficult for a Maryland advisor to determine and assess the tax that could apply to the fund fees. Finally, Maryland advisors would need to create new systems and procedures to assess, collect and transmit the tax.

CONCLUSION

FSI has significant concerns about the costs and risks to Maryland investors posed by a tax on financial advice. This is a concern for Maryland’s lower- and middle-class investors who would be more burdened by the tax and more likely to face serious financial risk by foregoing professional advice as a result.

Thank you for allowing us to express our concerns regarding H.B. 1628, and particularly its impact on Maryland’s savers and investors, as well as financial advisors.

Please feel free to contact my colleague, Dan Barry, Director of State Legislative Affairs, at (202) 517-6464 or dan.barry@financialservices.org if you have questions or concerns about this or other matters.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" followed by "Bellaire".

David T. Bellaire, Esq.
Executive Vice President & General Counsel