SB 735 Senator Bryan Simonaire_FAV.pdf
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Minority Leader

Education, Health, and
Environmental Affairs Committee

Subcommittees
Chair, Alcohol
Health

Joint Committee on the Chesapeake and
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Written Testimony in SUPPORT of SB 735

Chairman and members of the Budget and Taxation Committee, I am here to introduce and voice my support for Senate Bill 735 – *Repeal the Netflix Tax Act of 2022*.

Senate Bill 735 would repeal the application of the sales and use tax to certain digital codes and digital products.

SB735_MD Center on Economic Policy_UNF.pdf
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Maryland Needs an Effective, 21st Century Tax Code

Position Statement in Opposition to Senate Bill 735

Given before the Senate Budget and Taxation Committee

The General Assembly made important progress toward bringing our tax code into the 21st century by updating the sales tax to include digital goods, and at the same time raised significant revenue to support the Blueprint for Maryland's Future. Senate Bill 735 would reverse that progress by reinstating arbitrary special tax treatment for digital services and would make it harder to sustain our investments in world-class public schools. **For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 735.**

Maryland has underinvested in the foundations of our communities, such as health care, transportation, and education, since the Great Recession. We have taken steps to reverse this trend, such as passing the Blueprint for Maryland's Future plan, and the state's fiscal position is currently historically strong. However, Marylanders' long-term needs remain substantial. Senate Bill 735 would cost more than $600 million cumulatively by FY 2027, making it harder for the state to follow through on the Blueprint's promise.

For decades policymakers allowed our tax code to fall behind technological change. Only about 30 percent of consumer sales nationwide were subject to sales taxes as of 2013, down from about 40 percent throughout the 1970s.[i] In the music industry alone, worldwide sales of physical media like CDs fell by three-quarters from 2002 to 2017.[ii] Streaming and digital downloads now account for more than 80 percent of all music industry revenue.[iii] Applying the sales tax to digital goods in the same way it applies to comparable physical goods has helped ensure that technological change does not undermine the foundations of Maryland communities – and has been especially important in protecting revenues as consumption patterns have changed dramatically during the coronavirus pandemic.

The state's current, strong fiscal position is no reason to throw money at poorly designed tax breaks. Lawmakers should focus on policies that help Marylanders who need it most and strengthen our economy in the long run. Senate Bill 735 would do the opposite, taking our tax code backward in time and undermining our investments in high-quality public schools.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make an unfavorable report on Senate Bill 735.

Equity Impact Analysis: Senate Bill 735

Bill summary

Senate Bill 1001 would repeal expansions of Maryland's sales tax base to include digital products under Chapter 38 of 2021.

Background

Maryland's sales tax was historically based primarily on the tangible goods that dominated our economy throughout the 20th century. As our economy digitized and transitioned toward services, sales tax revenues increasingly lagged economic growth and Marylanders' needs for public investments such as education and health care. The General Assembly reformed the state's sales tax in 2021 (overriding Gov. Hogan's veto of a 2020 bill) to include digital goods. This reform added Maryland to a list of 30 states that include at least some types of digital product in their sales tax base. Revenue from the sales tax on digital goods support implementation of the Blueprint for Maryland's Future.

Equity Implications

Reinstating the special tax treatment of digital goods would make it more difficult to sustain long-term funding for the Blueprint for Maryland's Future public school funding reform. Based on historical experience, failing to faithfully implement the Blueprint would likely disproportionately hard students of color. For example, because policymakers repeatedly chose to cut public school funding in the years after the Great Recession, in the years before the Blueprint passed more than half of Black students in Maryland went to school in a district that was underfunded by at least 15% relative to the state's already-outdated standards, compared to a small minority of white students going to school in a district this deeply underfunded.[iv]

Impact

Senate Bill 735 would likely **worsen racial and economic equity** in Maryland.

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[i] Michael Leachman and Michael Mazerov, "Four Steps to Moving State Sales Taxes into the 21st Century," Center on Budget and Policy Priorities, 2013, https://www.cbpp.org/research/state-budget-and-tax/four-steps-to-moving-state-sales-taxes-into-the-21st-century

[ii] "Global Music Report 2018: Annual State of the Industry," IFPI, 2018, https://www.ifpi.org/downloads/GMR2018.pdf

[iii] Recording Industry Association of America, 2019, https://www.riaa.com/facts/

[iv] Christopher Meyer, "Budgeting for Opportunity: How Our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity-health-education-transportation/

SB735_MSEA_Zwerling_UNF.pdf
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Testimony in OPPOSITION to Senate Bill 735
Repeal the Netflix Tax of 2022

Senate Budget & Taxation Committee
March 10, 2022

Samantha Zwerling
Government Relations

The Maryland State Education Association opposes Senate Bill 735, which would repeal the application of the sales and use tax to certain digital codes and digital products. These are funds that go directly to the Blueprint for Maryland's Future Fund and are necessary to fund the implementation of the Blueprint for Maryland's Future, which will give students a world-class education.

MSEA represents 75,000 educators who work in Maryland's public schools, teaching and preparing our 896,837 students for careers and jobs of the future. MSEA also represents 39 local affiliates in every county across the state of Maryland, and our parent affiliate is the 3 million member National Education Association (NEA).

If enacted, this bill would have devasting effects on the State's ability to fund the Blueprint for Maryland's Future and other services. The Fiscal Note estimates this bill could cost the Blueprint for Maryland's Future Fund over $100 million annually. This will impede the State's ability to fund the necessary programs the Commission on Innovation and Excellence in Maryland (Kirwan Commission) deemed necessary to give opportunity, hope, and promise to all Maryland students, no matter what they look like, where they come from, or who their family is. This historic investment brings to students, educators, and schools changes educators have long advocated for and expands opportunities at every grade level with new resources, programs, and staffing. This bill would undermine all of that progress.

This year the Maryland General Assembly has heard many proposals for tax credits and modifications for specific populations and purposes. As you are considering these proposals the Maryland State Education Association urges you to consider the ramifications that each one will have on the General Fund and our ability to provide a high-quality education to every K-12 student in our state.

Public education, as with many other worthy services provided by government, is a common good and needs to be supported with revenue sources that are broad based, reliable, and stable. Providing adequate funding for education is an investment that promotes families, communities, economic development, and public safety. Investing in education provides an educated workforce that pays income taxes based upon higher salaries, pays sales taxes based upon greater consumer demand, and pays property taxes through expanded home purchasing power. Today's investment in education is tomorrow's increased government revenues.

Backed by the best practices of strong-performing school systems around the world and firsthand experience of Maryland educators, we know these strategies will greatly improve the quality of education for all our students. But they will not materialize without the necessary dedicated revenue.

MSEA respectfully urges an Unfavorable Report on Senate Bill 735.