MARCH 10, 2022

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/