MARYLAND
Chamber of Commerce

LEGISLATIVE POSITION:
UNFAVORABLE
House Bill 1515 —Sales and Use Tax—Rate Reduction and Services
House Ways & Means Committee
Monday, March 11, 2024

Dear Chairwoman Atterbeary and Members of the Committee:

Founded in 1968, the Maryland Chamber of Commerce is the leading voice for business in Maryland. We are a statewide coalition of more than 6,800 members and federated partners working to develop and promote strong public policy that ensures sustained economic recovery and growth for Maryland businesses, employees, and families.

House Bill 1515 would lower the sales tax from 6% to 5% but would expand it to everyday services including legal services, realtor services, home improvement, auto services, etc.—just to name a few. Though a fiscal note has not been released as of this writing, the fiscal note on an identical bill that was introduced and received an unfavorable report by Ways and Means in 2020 (HB 1628) noted that this would result in $2.9 billion in additional tax revenue for the State. It's safe to assume that the fiscal note for HB 1515 will be even larger.

We believe that taxing all services is bad public policy for the following reasons:

A tax on services is discriminatory against small and fledgling businesses.
Small businesses rely on outside services (legal, accounting, etc.) while larger companies can utilize in-house expertise for these newly taxable services at no additional cost. As a result, small and start-up businesses will incur additional costs just to operate in the State.

This legislation will result in pyramiding taxes.
Taxing services increases the potential for services and goods to be taxed more than once, which leads to higher consumer costs.

A tax on services puts Maryland businesses at a competitive disadvantage relative to other states.
States with service taxes are at a disadvantage when it comes to competing with states that don't tax services. HB 1515 would discourage the use of Maryland services, as well as discourage companies seeking to expand or relocate here. Note that none of our competitor states in the region broadly tax services. In fact, only Hawaii, New Mexico and South Dakota do.

Taxing services will disproportionately affect those who can least afford it.
The tax rate is the same for all consumers, no matter their income. If more services become taxable, a larger portion of the disposable income of lower-income individuals than that of higher-income individuals will go toward sales taxes.

Implementation of a tax on services presents a tremendous administrative burden, particularly for small business owners.
Service providers, many of whom are independent contractors or small business owners, will now have to face a new administrative burden. As the Maryland Association of Certified Public Accountants (CPAs) has pointed out, other states like Florida and Michigan have tried to tax a broad range of services only to quickly repeal them due to the complexity of administration, among other reasons.

A tax on services will be difficult to enforce due to geographic challenges.
For example, if an accountant is serving a client who owns gas stations in Maryland, Virginia and Washington, D.C., “it is unclear what state the service is being delivered from and what state the service is delivered to,” said Tom Hood, chief executive of the Maryland Association of CPAs, in the Baltimore Sun when this legislation was introduced in 2020.

There is widespread opposition to this bill from many segments of the business community, including retailers, engineering, transportation, real estate, financial planning, legal services, salons, and many more. Representatives from the small business community are equally concerned about the impact that this would have on their ability to create jobs, grow and thrive in Maryland.

For these reasons, the Maryland Chamber of Commerce respectfully requests an **Unfavorable Report** on House Bill 1515.