MARYLAND

Destination Marketing Organizations

March 10, 2025

The Honorable Vanessa Atterbeary, Chair
House Ways and Means Committee

Re: House Bill 1554 - Sales and Use Tax - Taxable Business Services - Alterations

Position: ***Unfavorable***

Chair Atterbeary and Vice Chair Wilkins:

House Bill 1554 as proposed would modify Maryland's tax code to impose a 2.5% sales tax on business to business (B2B) services. While we share significant concern about Maryland's budgetary position and are aligned on the necessity of creative solutions to generate revenue for the State, imposing a tax on services would create a material disincentive to doing business in Maryland that would exacerbate our current budgetary situation.

The implementation of a B2B sales tax would incentivize businesses to procure services in states that do not impose a service tax. Additionally, this proposal would incentivize commercial service providers in the state to relocate to Virginia, where they could hypothetically retain their client base without being subject to the tax. The best way to fix our State's budget circumstances is to invest in policies that make us more competitive for business and promote economic growth.

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 1554 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, as of 2024, only Hawaii, New Mexico and South Dakota do. Furthermore, the administrative obligation associated with compliance would be a considerable burden to small and minority-owned businesses in the State.

B2B Service Tax Exacerbates Maryland's Financial Hardship

While on the surface the revenue estimates from this proposal may seem enticing, using this figure alone to make a determination on the appropriateness of the policy to fix Maryland's budget is misleading and lacking in context. A significant factor contributing to the financial position we are in today is a lack of economic competitiveness with our neighboring states. In order to have healthy, long-term growth, we need to ensure businesses can afford to open and stay in Maryland. A revenue bump at the expense of losing services providers to relocation and directing businesses here to procure services from non-Maryland providers is a short-sighted endeavor that would frustrate growth and weaken our economy for years to come.

While the objective of HB 1554 is to address Maryland's fiscal challenges, the potential negative impacts on Maryland's economy would defeat the purpose of ensuring Maryland's long-term economic health. I urge you and the members of the General Assembly to carefully evaluate the implications of this legislation and advocate for policies that support a thriving business environment in our state. We respectfully urge an ***unfavorable*** report on House Bill 1554.

Respectfully submitted,

Cassandra M. Vanhooser

Cassandra Vanhooser, Chair
Maryland Association of Destination Marketing Organizations