

KATIE FRY HESTER
Legislative District 9
Howard and Montgomery Counties

Education, Energy, and
Environment Committee

Chair, Joint Committee on
Cybersecurity, Information Technology
and Biotechnology



Annapolis Office
James Senate Office Building
11 Bladen Street, Room 304
Annapolis, Maryland 21401
410-841-3671 · 301-858-3671
800-492-7122 Ext. 3671
KatieFry.Hester@senate.state.md.us

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

Testimony in Support of SB600 - Sales and Use Tax - Definition of Retail Sale - Alterations

February 23, 2026

Chairman Guzzone, Vice-Chairman Rosapepe, and members of the Budget and Taxation Committee:

Thank you for your consideration of SB600, which would add a new exception to Maryland's retail sales tax to exclude the sale of certain Information Technology (IT) and software services.

Maryland first adopted its sales tax just after World War II, at a time when most consumer spending was on goods. Since then, our economy has transformed dramatically. Services have grown from roughly 40% to nearly 70% of consumer spending, and technology now underpins nearly every sector. As digital services replace physical goods, such as cloud storage replacing hard drives, it is reasonable to evaluate whether our tax structure is keeping pace with economic reality. The goal of modernization is understandable and responsible: maintaining stable revenue to fund education, health care, and other essential public services.

Maryland already taxes many technology-related services. Telecommunications services, electronically delivered services, digital downloads, subscription streaming, and digital products are all subject to sales tax. The recent reform extending a 3% rate to data storage, computing services, web hosting, and software-related services was intended as part of that broader modernization effort. However, early data shows that the implementation of this policy has not functioned as a broadly distributed modernization measure. Instead, it has disproportionately impacted one sector: technology.

First-quarter results of the tech tax indicate that although multiple industries are subject to the tax, 45% of the total impact has fallen on the technology industry alone. This represents a significant concentration of burden on one of Maryland's most innovative and mobile sectors. Unlike industries rooted in physical infrastructure, small and mid-sized technology firms can relocate across state lines with relative ease. Maryland's neighboring states do not impose a comparable tax structure on these services. When nearly half of the tax burden falls on a single, highly mobile industry, we risk driving away precisely the businesses that fuel innovation, job growth, and long-term economic expansion. The technology sector represents \$37.8

billion—nearly 9% of Maryland’s economy—and supports tens of thousands of jobs. Modernization should strengthen that foundation, not weaken it.

SB600 does not reject the need to modernize our tax code. Rather, it recognizes that the current structure has produced an unintended and disproportionate impact. Therefore, SB600 provides some carve outs that are already in place in our manufacturing tax to ensure we are not double taxing our companies:

- If a tech service is being resold or incorporated into another tech service for sale, it would not count as a taxable retail sale; or
- If both the seller and buyer are part of the same affiliated group or are related pass-through entities, the sale of these tech services would not count as a retail sale.

This legislation would restore balance, ensure fairness across industries, and protect Maryland’s ability to compete for technology investment and talent. Modernization should be even-handed. It should not single out one sector to carry nearly half the load. For these reasons, I respectfully request a favorable report on SB600.

Sincerely,

A handwritten signature in black ink that reads "Katie Fry Hester". The signature is written in a cursive, slightly slanted style.

Senator Katie Fry Hester
Howard and Montgomery Counties