

March 12, 2025

House Committee on Ways and Means
Room 131
House Office Building
Annapolis, Maryland 21401

Re: HB 1554 - "Sales and Use Tax - Taxable Business Services - Alterations" (Unfavorable)

Dear Chair Atterbeary and Members of the House Ways and Means Committee:

On behalf of the Computer & Communications Industry Association (CCIA), I write to respectfully oppose HB 1554 in advance of the House Ways & Means Committee hearing on March 12, 2025. CCIA is an international, not-for-profit trade association representing a broad cross-section of communications and technology firms.¹ Therefore, proposed regulations on the interstate provision of digital services can have a significant impact on CCIA members.

Policies that focus on taxing digital services misunderstand the value of their functions and tools for internet users, which is particularly important for businesses that are just starting out.² Economies, especially at the state level, are being transformed by new businesses and entrepreneurship, and governments must consider these benefits as they aim to support the innovation economy and local organizations that naturally increase tax revenue through job creation and economic activity.

Under HB 1554, business-to-business (B2B) transactions would be subject to a proposed sales tax of 2.5% on common services, including accounting, tax preparation, lobbying, and IT services. This raises a variety of policy concerns that could lead to market fragmentation, discourage further investment in innovation and infrastructure, and damage Maryland's startup economy, as further detailed below.

HB 1554 conflicts with best tax practices and could lead to increased compliance costs.

The proposed sales tax under HB 1554 would tax different categories of revenue differently, likely creating economic distortions. The guiding star of tax policy is that revenue should be raised efficiently. Imposing taxes tends to create incentives that distort behavior and produce deadweight losses for the economy, so taxes should be designed to minimize the size of those deadweight losses and harmful distortions. HB 1554's approach would also incentivize attempts to reclassify various products and services to avoid falling under the bill's scope. This level of granularity of coverage versus exemptions will overly complicate Maryland's tax landscape, making the tax rules difficult to understand and apply consistently for both

¹ For more than 50 years, CCIA has promoted open markets, open systems, and open networks. CCIA members employ more than 1.6 million workers, invest more than \$100 billion in research and development, and contribute trillions of dollars in productivity to the global economy. A list of CCIA members is available at <https://www.ccianet.org/members>.

² *Tools To Compete: Lower Costs, More Resources, and the Symbiosis of the Tech Ecosystem*, CCIA Research Center (Jan. 25, 2023), <https://ccianet.org/research/reports/tools-to-compete/>

taxpayers and tax administrators. The multi-layered definitions within HB 1554's text could lead to a higher administrative burden for the state during an increasingly crucial time as the state grapples with its budget deficit and the final version of the budget.³

Some businesses will likely find it challenging to determine which of their services are subject to the tax and which are exempt. This confusion could result in disputes and increased compliance costs. Overall, HB 1554 reflects a major departure from the importance of administrative ease in tax design. This type of differentiation is a clear case of poor tax design through the classification of certain services only being taxable when both the buyer and provider are business entities. Although intentional, this targeting of commercial transactions introduces a differential treatment that results in a non-neutral tax approach that singles out B2B enterprises. These kinds of tools and services are essential for all organizations, including new businesses and startups, which could be significantly impacted by this sales tax.

HB 1554 will harm overall innovation and growth, especially for small businesses that utilize online tools.

HB 1554 would create significant long-term impacts for the state's economy and competitiveness. Small and medium-sized businesses, as well as startups, typically operate on very thin margins and do not have the same resources as large organizations to bring services in-house or account for new taxes. This tax approach would punish smaller businesses in Maryland for not having the means to conduct accounting, IT, and other services themselves. Furthermore, HB 1554 would add thousands in annual costs for businesses navigating a complicated market with inflation and other economic pressures. This could potentially cause business owners to raise prices, reduce their staff, or invest less in growth for the company.

Additionally, the bill would create a cascading tax effect, resulting in a "tax on tax" scenario. This is because services would be taxed at various stages of production, resulting in higher costs passed on to Maryland consumers. For example, building a website would result in multiple vendors charging the 2.5% tax — for purchasing the domain name, a website designer, and an ad package to share the website with its audience. At each stage, a tax would be charged, making the impact much greater than the 2.5% rate because it will be felt throughout various stages of managing a business.

The bill would also put Maryland businesses at a competitive disadvantage, as other neighboring states have not implemented similar B2B taxes on business services. The result is a strong incentive to seek out the necessary business tools and services across state lines or for Maryland-based businesses that work with other organizations to relocate entirely.

In combination, HB 1554 stands to drain the resources of businesses that are crucial to Maryland's economy by further burdening them with this sales tax as another cost to the already expensive price of opening and maintaining a business. While we support efforts to

³ Bryan P. Sears, *Services tax added to 'menu of options' as state grapples with budget deficit, looming federal cuts*, Maryland Matters (Mar. 5, 2025)

<https://marylandmatters.org/2025/03/05/services-tax-added-to-menu-of-options-as-state-grapples-with-budget-deficit-looming-federal-cuts/>.



ensure Maryland's fiscal stability, the best approach is to focus on policies that ensure business growth and the state's economic expansion.

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We appreciate your consideration of our comments and stand ready to provide additional information as the General Assembly considers proposals related to technology policy.

Sincerely,

Megan Stokes
State Policy Director
Computer & Communications Industry Association