gbc POSITION STATEMENT

TESTIMONY PRESENTED TO THE HOUSE WAYS AND MEANS COMMITTEE

HOUSE BILL 1628 -- SALES AND USE TAX - RATE REDUCTION AND SERVICES

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Position: Oppose

House Bill 1628 proposes a one percentage point reduction of the current six percent sales tax, while expanding the sales tax to virtually all services. The bill defines “taxable service” as “any activity engaged in for a buyer for consideration.” House Bill 1628 only excludes taxing educational services, health care assistance services, services provided by religious organizations, and various social or non-profit services.

House Bill 1628 would create a major structural change to Maryland’s sales tax resulting in an anticipated 50 percent increase in Maryland’s sales tax revenues.

The application of the sales tax on services would be detrimental to economic growth and job creation, negatively impact the State’s competitiveness, and may result in specific business industry sectors divesting of their investments in Maryland. The legislation, introduced late in the session, has not been afforded the opportunity to be fully studied and the affected businesses have not been provided a reasonable chance to fully discuss the intended and unintended consequences of how the legislation would impact Maryland’s businesses and industries.

The GBC does not believe it is advisable or fair to significantly alter the State’s tax structure based on a concept advanced at the halfway point of a 90-day session. Massive tax policy change should not be rushed. The better approach would be to establish a State tax commission to study the current tax code, examine its effectiveness in light of today’s changing economy, and then propose appropriate changes with enough time for public notice and due consideration.

In addition to its concerns regarding House Bill 1628, the GBC has registered its opposition to a myriad of tax-related legislation introduced during the 2020 legislative session. It is paramount that a variety of voices are considered when debating significant changes to the way businesses and corporations are taxed. The result, if done collaboratively, is a tax structure that is fair, competitive, and predictable.

Based on the GBC’s interactions with members in the business community, we thought it was important to highlight just one of the industries that would be negatively impacted by a sales tax on services. The fund industry, which includes mutual funds, exchange-traded funds, closed-end funds, and similar funds offered to investors, employs numerous people with high-paying jobs in the Greater Baltimore region and throughout the State. In response to this proposal, those in the industry have expressed significant concerns about the viability of the fund industry remaining in Maryland. Industries like theirs do not require a physical presence to serve their clientele. Instead, the industry choses locations with competitive business climates when making decisions regarding where to locate their offices and employees. If Maryland imposes a sales tax on financial services that exists virtually nowhere else these firms will allow their leases to expire, cease hiring, and begin moving their operations to a state that does not impose an uncompetitive sales tax on services.

Additionally, the fund industry has concerns about placing Marylanders at a disadvantage by making saving more expensive through a tax on investment services. Finally, the industry, like many in the services sector, is concerned about how to determine who to tax and exactly what service is taxable. The administrative and compliance problems created by a sales tax on all services will drive some sectors, like the fund industry, outside Maryland's borders to avoid the complication.

House Bill 1628 is inconsistent with a key tenets in *Gaining the Competitive Edge: Keys to Economic Growth and Job Creation in Maryland*, a report published by the GBC that identifies eight core pillars for a competitive business environment and job growth:

> **Tax structure that is fair and competitive.** Maryland's tax policy must be perceived by business as being competitive and devoid of elements that unreasonably target specific businesses or business sectors.
>
> **Competitive costs of doing business.** Public policies must reflect a government predisposition to nurture business growth and to avoid arbitrarily or disproportionately imposing additional overhead upon the business sector.

Furthermore, the Greater Baltimore Committee's *2020 Legislative Priorities* state that a key priority is building a competitive, predictable and fair tax system. The passage of House Bill 1628 would be inconsistent with this priority.

For these reasons, the Greater Baltimore Committee urges an unfavorable report on House Bill 1628.

The Greater Baltimore Committee (GBC) is a non-partisan, independent, regional business advocacy organization comprised of hundreds of businesses -- large, medium and small -- educational institutions, nonprofit organizations and foundations located in Anne Arundel, Baltimore, Carroll, Harford, and Howard counties as well as Baltimore City. The GBC is a 65-year-old, private-sector membership organization with a rich legacy of working with government to find solutions to problems that negatively affect our competitiveness and viability.