



Maryland Chamber of Commerce

Legislative Position

Computer
services
sales tax
OPPOSE-
W&M/APP
Committees

Nov. 14, 2007

Tax Reform and Transportation Investment Act of 2007 – SB2

Provision for Imposing Sales Tax on Computer Services

Summary: SB2, at page 22, would amend Section 11-101(m) of the Tax-General Article to impose sales tax on “a computer service” including computer facilities management and operation; custom computer programming; computer system planning and design that integrate computer hardware, software, and communication technologies; computer disaster recovery; and hardware or software installation, maintenance; but not including data processing or entry.

Chamber Position: The Maryland Chamber of Commerce opposes this provision of SB2 and asks that it be stricken from the bill.

- Sales taxes on these services hurt small businesses the most. Almost $\frac{3}{4}$ of Maryland's 140,000 registered businesses have fewer than 10 employees. Small employers will be impacted the most by the proposed tax. Large companies are able to hire employees to perform the computer services listed in the bill, and they would not pay sales tax. But small businesses usually hire outside companies to perform these services, and therefore would pay the proposed sales tax.
- The provision is harmful to Maryland jobs in the “knowledge economy”. Computer services are the backbone of the technology economy of the 21st century. Entire industry segments rely on computer services in providing their own products and services. The technology sector is a part of the economy that Maryland is trying to grow, not discourage. A tax on these services is not a message of welcome. These businesses may chose to locate or expand in Virginia or Pennsylvania where the services are not subject to sales tax. Additionally, computer services are relied on by most businesses of all sizes for efficiencies in day to day operations such as sales accounting, payroll reporting, and general communications. The imposition of sales tax on this significant business input will result in pyramiding, or taxes at multiple levels, which is economically distortive. And because the majority of the tax will be borne by businesses as the major purchasers of computer services, it will add huge amounts to the costs of doing business in Maryland, which are already the 10th highest in the nation (according to the Forbes study of July 11, 2007).

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- Sales taxes on these kinds of services are very difficult and costly to administer. The provision would add complexities to Maryland's tax code that most states have chosen to avoid. Pennsylvania enacted a sales tax on similar computer services, only to repeal the tax several years later due to the tremendous administrative and legal difficulties it created. Florida and Massachusetts both repealed broad based sales taxes on services for similar reasons. Significant time and costs would be spent by the taxpayers and the Comptroller's Office in attempting to identify and administer the myriad legal and compliance questions, and many of them have no reasonable answer. Consider, for example, the nightmare of trying to identify where the taxable transaction took place: A software engineer located in Virginia, who never sets foot in Maryland, creates custom software for a client that is headquartered in Delaware, and the software will be used on the client's computers that are located in its plants in Maryland and 20 other states. Is the sales tax in Virginia, or Delaware, or Maryland and the rest of the 20 states? There are many real situations like this that create compliance nightmares, for both the taxpayers and the state's tax administrators.

Businesses already pay over 40% of the sales tax revenue collected by Maryland each year – this is the sales tax expense paid on currently taxable services, furniture, supplies and other purchases for the business, and does not include the sales tax collected from customers and remitted to the state. This provision will hurt Maryland's competitive position for retaining businesses, especially small businesses, that provide jobs to Marylanders.

We respectfully request that you delete the computer services sales tax provision from the bill.

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