

Oppose Sales Tax on Services

The Maryland Association of Certified Public Accountants is a membership organization with nearly 10,000 CPA members. Our members serve thousands of business clients in Maryland. We strongly oppose legislation that would impose sales and use tax on services, because it would have a direct negative impact on the Maryland businesses and consumers.

According to the fiscal note on a previous similar bill, “This bill will have a substantial effect on small businesses that provide or purchase the services on which the sales tax is imposed. Small businesses that purchase these services will either pay more for these services, lowering profits or causing a reallocation of other spending decisions, or will purchase smaller quantities of these services. Small businesses providing these newly taxable services will experience losses in sales for the reasons noted above. The amount of such losses will vary and cannot be reliably estimated at this time.”

The biggest obstacle to implementing a sales tax on professional services relates to the difficulty in administering the tax. This complexity exists for both the State and taxpayers. The multi-state nature of both the customers and the taxpayer in many instances make it difficult to determine where the service takes place. The following example illustrates this complexity:

A CPA travels to several states to provide tax, consulting or other services to a client that does business in several states, including other states the CPA has not visited. The sales tax for Maryland cannot be based on the amount of time the CPA spent in Maryland, because that may be disproportionate to the value of the service the client will actually enjoy in Maryland. It cannot be based on the client's percentage of business in Maryland versus other states, because that may have nothing to do with the particular service the CPA provided. You can't base the Maryland sales tax on whether the contract for the service was signed in Maryland, because that may have absolutely nothing to do with where the CPA will do the work or where the client will enjoy the service.

Not only are sales and use taxes a bad idea when applied to the services typically supplied by CPAs, they are also a bad idea when applied to a host of other services for the following reasons:

- 1) Discrimination against small and emerging businesses. Small firms typically find it necessary to use outside services while larger companies likely have in-house expertise that can provide otherwise taxable services at no cost. Also, a small company whose services may become taxable will have to incur additional costs to establish and maintain collection and reporting mechanisms while larger companies likely have similar mechanisms already in place. Diverting capital into payment of additional taxes and administrative costs limits the growth of small companies.
- 2) Pyramiding taxes on services and final goods. Taxing services increases the potential for goods and services being taxed several times resulting in higher consumer costs.
- 3) States with service taxes are at a competitive disadvantage compared to states that do not tax services. Not only does it discourage the use of services, but it discourages companies seeking to relocate or expand.
- 4) Taxing services will affect those who can least afford it more than those who are well off. Sales tax by its very nature is a regressive tax. The tax rate remains the same no matter what an individual's income level may be. If more services become taxable a larger portion of disposal income for those on the lower end of the socio-economic ladder will go to satisfy sales tax obligations than that of others who are more well off.

The Maryland Association of CPAs believes a sales tax on services would burden the citizens and businesses of this state unnecessarily with additional taxes. It would negatively impact economic growth and development. We believe this proposal is bad for small business in Maryland and we will work to defeat such legislation if introduced. We note that other states such as Florida, and more recently Michigan, have attempted to tax a broad range of services only to quickly repeal them in part due to the complexity of administration as noted in the above example.