

MARYLAND BUSINESS TAX REFORM COMMISSION

November 9, 2010

STATEMENT IN OPPOSITION TO PROFESSIONAL SERVICES TAXES

It seems that, whenever the State feels the squeeze of a tight economy, it looks to relieve the pressure through tax base broadening measures, one of which is the professional services tax. That effort usually results in shifting the burden onto the backs of Maryland's small businesses and its customers.

The process of taxing professional and personal services has been neither fair nor prudent. First, a bill is drafted listing the unfortunate souls selected to be taxed. Then a struggle among lobbyists, legislators and businesses ensues to remove the original targets, necessitating the selection of yet another list of businesses to be taxed. Considering the speed with which the services are selected, and the even faster pace at which they are changed and substituted with others, raises concern that the services are selected arbitrarily.

Moreover, personal services seem to be selected for taxation because they are considered non-essential. These are actual costs to actual people and actual businesses whether they are deemed essential or otherwise. Unfortunately, taxing services sends a message to Maryland businesses that says the plan is: "When things are bad, make them worse."

Over the years, I have opposed efforts to expand taxes on services on behalf of various industries. A glaring shortcoming of a professional services tax is the business-to-business service transaction. Businesses will be paying taxes on taxes – and following those transactions may prove to be a reporting nightmare.

Another negative effect may be that people unable to survive in such a business climate will choose to close their small service businesses and attempt to return to employee status.

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