

Oppose Sales Tax on Services

Committee Members – thank you for allowing me to address the committee on this important issue. My name is Sean Mello and I am a CPA in public practice here in Maryland. I am employed by The SC&H Group where I am a senior tax associate in the firm's public practice here in Maryland. I assist taxpayers in regards to sales & use tax issues across the country. This experience has led me to understand what motivates clients in regards to sales tax issues, transactional planning, related organizational structuring and choice of entity location. As a result of my experience in this area I strongly urge the Committee not to recommend any new legislation that would expand the scope of services that are subject to Maryland's sales & use taxes because it would have a direct negative impact on Maryland businesses and consumers.

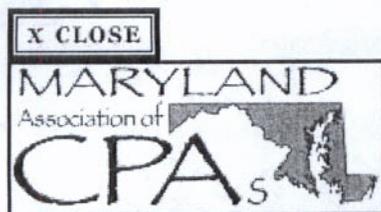
According to the fiscal note on a previous bill introduced in the Maryland Legislature attempting to tax services, "This bill will have a substantial effect on small businesses that provide or purchase the services on which the sales tax is imposed. Small businesses that purchase these services will 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."

As a CPA I object to any recommendations made by the Committee or bills that may be introduced in the upcoming legislative session regarding the taxation of professional services. The biggest obstacle to implementing a sales tax on professional services is the difficulty in administering the tax. This administrative 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. This complexity violates the principles espoused in the "10 Criteria for Evaluating Proposed Tax Legislation" as developed by the American Institutes of CPA's. The Maryland Association of CPA's supports these principles as the standard to be employed when considering any recommendations to alter Maryland's current business tax structure.

Applying sales and use taxes to additional services is a bad idea 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.

I believe a sales tax on services would burden the citizens and businesses of this state unnecessarily with additional taxes and would negatively impact economic growth and development. I 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. I thank the committee for allowing me this time to speak and urge the Committee not to include any recommendations to expand Maryland's sales tax base to include more services for the reasons already stated. Thank you.



CPA Resources

Thumbs up or thumbs down? How to evaluate proposed tax legislation

A few years ago, the AICPA issued a comprehensive report designed to provide policy makers with a clear understanding of the issues and alternatives involved in tax reform, and to foster informed discussion by providing unbiased information and analysis.

As part of that report, the AICPA recommended employing the following widely recognized indicators of good tax policy to analyze proposed changes. These 10 guiding principles are equally important and should be considered both separately and together when evaluating the current legislation and tax reform proposals.

The MACPA State Tax Committee believes it is important to circulate these principles to MACPA members to guide their own assessment of state tax proposals that will surface during the 2011 session of the Maryland General Assembly.

10 criteria for evaluating proposed tax legislation

1. **Simplicity:** The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.
2. **Fairness:** Similarly situated taxpayers should be taxed similarly.
3. **Economic growth and efficiency:** The tax system should not impede or reduce the productive capacity of the economy.
4. **Neutrality:** The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.
5. **Transparency:** Taxpayers should know that a tax exists and how and when it is imposed upon them and others.
6. **Minimizing non-compliance:** A tax should be structured to minimize non-compliance.
7. **Cost-effective collection:** The costs to collect a tax should be kept to a minimum for both the government and taxpayers.
8. **Impact on government revenues:** The tax system should enable the government to determine how much tax revenue will likely be collected and when.
9. **Certainty:** The tax rules should clearly specify when the tax is to be paid, how it is to be paid and how the amount to be paid is to be determined.
10. **Payment convenience:** A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.