



Maryland Chamber of Commerce

Legislative Position

FAVOR W/
AMENDS

Ways & Means
Committee
4/4/08
PRIORITY
ISSUE

SB 46

Budget Financing Act

Bill Summary: This bill would repeal the sales tax on computer services, impose a 6.25% individual income tax bracket for three years, and transfer sales tax revenues from the transportation trust fund to the state general fund for five years.

Chamber Position: The Maryland Chamber of Commerce supports this bill with amendments. Repealing the sales tax on computer services is a 2008 Maryland Chamber priority, and we are most appreciative that the General Assembly seems to have also concluded that the tax must be repealed before it takes effect. It is imperative that the tax be repealed for the following reasons:

- The Tax Stifles Economic Development and Job Creation
Maryland spends millions of dollars annually to attract and expand technology companies and jobs. Computer service companies employ 68,000 Marylanders, with an annual payroll of \$5.2 billion, paying wages nearly twice the statewide average. Imposing a sales tax on these activities is jeopardizing these jobs and harming Maryland's economic development goal of maintaining a high-tech knowledge economy and workforce. The tax has already caused companies to cancel planned expansions and cost Maryland jobs.
- The Tax Damages Maryland's Competitiveness
Despite the over-generalized information in the original fiscal note, only a handful of states tax computer services. For example, while the fiscal note lists Delaware and the District of Columbia as jurisdictions with computer services taxes, Delaware imposes the tax at a .3% gross receipts tax rate, and the District exempts most locally based computer services providers. Ignoring the tax rates and exemptions in other states is very misleading. Allowing this tax to take effect would make Maryland's business climate and tax structure uncompetitive with other states. Maryland companies are already making plans to move their IT departments, source their computer services acquisitions to other states and relocate in order to stay competitive.
- The Tax Will Be an Administrative Nightmare
Applying the sales tax to computer services will cause confusion for Maryland businesses and tax administrators. The tax has proven to be difficult to administer in states that have passed similar laws. That's why several states, such as Florida and Pennsylvania, have repealed the tax.

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Replacing the Revenues: We understand that the state must have a balanced budget. However, we believe that the provisions in the bill that would impose a higher individual income tax bracket and divert funds from the transportation trust fund are poor choices for funding the projected budget gap.

- New Income Tax Bracket
The proposed new income tax bracket of 6.25% would make Maryland's top rate the 4th highest in the country (combined state and local), behind only California's 10.3%, Rhode Island's 9.9%, and Vermont's 9.5%. The new combined rate of 9.45% would be significantly noncompetitive with our neighboring states of Virginia (5.75%), West Virginia (6.5%), Delaware (5.95%), the District of Columbia (8.7%) and Pennsylvania (3.07% gross). We believe that this income tax increase would be counterproductive to Maryland's economic development.
- Transportation Revenue Diversion
The state's unfunded transportation needs are well documented. The \$400 million in additional transportation funding provided at the special session did not come close to addressing future funding needs. It makes no sense to again divert funds from transportation to pay for general fund spending.
- Budget Restraint
The fiscal year 2009 state general fund budget which is currently in conference committee continues to grow at about 3.5% percent over fiscal year 2008. Reduction of the projected \$200 million fiscal year 2009 fund balance, elimination of more vacant positions, and delay of the small employer health insurance subsidy, GCEI, and other local aid are all viable options for avoiding the income tax increase and transportation fund diversion. The Governor could also be directed to provide more cuts for July 1, 2008 than the \$50 million provided on page 7 of the bill.
- Gas Tax
We would also support a gas tax increase, which would free-up sales tax revenues applied to the transportation trust fund at the 2007 special session of the General Assembly. While we understand the reluctance of some legislators to take this action in light of current gas prices, gas has never been viewed as cheap, whether it was at \$3, \$2, or \$1 a gallon. This is a proven user tax that must be a part of responsible transportation funding.

We urge a favorable report with amendments for this bill.

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