

The Free State Foundation

A Free Market Think Tank For Maryland...Because Ideas Matter

Statement in Support of HB 187, 196, 253 and 326 to Repeal the Computer Services Sales Tax

I am Randolph J. May, President of The Free State Foundation, a non-profit, nonpartisan free market-oriented think tank. One of the principal areas of the Free State Foundation's focus as a research and educational institution concerns the elimination or reduction of unnecessary and counterproductive regulatory mandates and taxes applicable to communications and other high-tech industries. I have over thirty years of experience working on legal and policy issues involving communications, computer, and other high-tech markets.

I urge a favorable report for HB 187, 196, 253 and 326, all of which would repeal the computer services tax that was enacted during the 2007 Special Session. The repeal of the tax would correct an error that, if uncorrected, will cost the State significantly more revenue than it hopes to receive from the tax.

The computer services tax was adopted with virtually no public discussion or consideration of the consequences to Maryland's economy. Unlike many other business sectors, technology services, including the computer services that are subject to the tax, are highly portable. Already many technology businesses have reported that nearby States are luring their businesses. It is likely that many of these businesses will relocate to avoid the arbitrary 6% surcharge on their services. When these businesses leave the State, they will take with them thousands of jobs. And they will take with them Maryland's understandable desire to develop a reputation as a technology magnet.

Computer services may have been targeted based on a belief that the tax would be paid primarily by upper income residents. In fact, the least sophisticated users who are most in need of computer services to assist them will disproportionately bear the tax.

The computer services tax, which will be incurred on a widespread basis by Maryland businesses of all stripes, will be passed on to consumers, resulting in higher prices for all Marylanders, regardless of their direct use of technology services. The tax puts all Marylanders at a competitive disadvantage because it increases the costs of essential services and discourages Marylanders from using computer services that would make them more efficient and productive.

The tax is also bad tax policy because it singles out a single service for taxation, and not a service that government has any interest in discouraging. The Maryland sales tax is generally applicable only to the sale of goods. If services are to be taxed, more public discussion and more legislative deliberation are essential. The computer services tax, adopted with no public scrutiny, arbitrarily targets a single service, not because of the merits of the service but because of the revenue it can generate – a thin reed on which to build respect for public tax policy.

In a 2007 study recently released by the American Legislative Exchange Council, Maryland ranked 32nd among the states in the overall competitiveness ranking. Virginia ranked sixth. There were sixteen variables that determined the states' competitiveness ranking, and eight of them related to relative tax burdens of various kinds. Repeal of this arbitrary tax is a necessary step on the road to restoring Maryland's reputation as a home for the most innovative and creative thinkers using the latest high-technology tools. Without repeal, Maryland and Marylanders will lag further behind in the race to build a more efficient, productive, and competitive economy.

For all of these reasons, I urge a quick and favorable report on HB 187, 196, 253 and 326.

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