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Commentary

Random Acts of Taxation
by
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In a random act of taxation, the General Assembly grievously wounded Maryland's efforts to rival Silicon Valley as a technology magnet. From a lengthy menu of services that are not currently subject to the Maryland sales tax, the Senate Budget and Taxation Committee during the 2007 special session recommended that computer services be subjected to Maryland's 6 percent sales tax.

Now, how will state officials convince technology leaders that Maryland, one of the few states to tax computer services, is a welcoming environment for their businesses when they have increased the cost of those services?

The impact of the computer services tax will not be limited to technology companies. It will extend to companies that rely significantly on technology in operating their businesses, precisely the kind of businesses states recruit for their high-wage jobs. Maryland businesses with offices in several states will opt to locate their most sophisticated operations and jobs outside Maryland to avoid the tax. Selecting a non-Maryland location will now yield a 6 percent price advantage.

The computer services tax is estimated to generate $200 million. But the loss of economic activity and the revenue generated from the new companies that form outside Maryland or existing companies that create jobs outside Maryland is certainly more significant than the $200 million expected from the computer sales tax.

The process by which computer services were targeted for taxation is as troubling as the tax itself. The governor had proposed an expansion of the sales tax to four services — health clubs, tanning salons, property management and landscaping services. These services were selected for no apparent reason other than the hope that they would generate sufficient revenues and that the affected consumers and sellers would not complain.

The governor's plan, however, did not succeed. Those affected, aided by their lobbyists, convinced the General Assembly that the services proposed by the governor should be spared from taxation because of the negative effects flowing from the new taxes. With a $200 million hole in the governor's plan, the General Assembly was forced either to reject some of the new and enhanced programs that were created during the special session or to find another source of revenue. Rejecting the new and enhanced programs was not even considered by the General Assembly.

Instead, without any prior public discussion or notice, the Senate committee selected computer services from a long menu of services that are not currently taxed in Maryland. Just as with the governor's expansion of the sales tax, there was no rationale for selecting computer services — except that those businesses would generate the required amount of revenue. This tax was not about fairness or reform. It was only about revenue.

Computer services were targeted based on a belief that the tax would be paid primarily by upper-income residents. Computer services, however, are used in virtually every business and will increase prices for all Maryland consumers even if they do not use computer services directly. Medical providers and financial institutions are just two examples of businesses that rely heavily on technology in their operations. The computer services tax incurred by these businesses will be passed on to the consumers.

Some say that the tax cannot be repealed because the revenue is critical to state operations. There are many ways to address the budget issues. The General Assembly could exercise self-restraint and avoid the creation of new state programs or enhanced mandates for existing programs. It could limit the growth in funding for state agencies.

Maryland has one of the most highly educated populations in the country. Instead of supporting our knowledge economy and our competitiveness, our governmental officials have opted to increase the price we pay for maintaining that economy and the efficiencies and competitiveness it generates by 6 percent.

The tax on computer services was a mistake, and it must be corrected.

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