National Taxpayers Union

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Statement of Andrew Moylan
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submitted to the Budget and Taxation Committee of the
Maryland State Senate on
SB 41, Repeal of the Computer Services Tax

I. Introduction

Chairman Currie and Members of the Committee, my name is Andrew Moylan. I am Government Affairs Manager for the National Taxpayers Union (NTU), a nationwide grassroots taxpayer organization with 362,000 members, including more than 7,100 in Maryland. You can find out all about NTU – and our educational affiliate, the National Taxpayers Union Foundation – on our website: www.ntu.org.

As a Maryland resident myself, I offer this testimony in favor of Senator Andrew Harris' SB 41, which would rescind the tax on computer services. Economics 101 tells us that when you tax something, you get less of it. Extending the 6 percent sales tax rate to computer services will harm the high-tech economy and threaten job growth in one of Maryland's most promising sectors. By repealing the tax, SB 41 would prevent the migration of tech jobs across state borders and stop a massive tax hike on productive businesses.

NTU believes that repealing the computer services tax would help to secure a solid foundation for not only the high-tech economy, but the "low-tech" economy which in modern times relies so heavily on computer services.

II. The Maryland Tech Sector

Maryland's high-tech sector accounts for 68,000 jobs and a payroll of $5.2 billion, making it one of the largest and most successful portions of the state's economy.[1] Computer services are also the backbone of countless other areas of the economy, providing support for employees who are some of the most educated and highly trained in the state.

According to the Maryland Computer Services Association, many computer service firms operate on a business model that only "allows" for a 7 percent profit margin with the remainder being reinvested.[2] Some of the more frugal firms operate on a 5 percent margin. Imposing a 6 percent tax on computer services could put some of them out of business and would severely punish the rest, despite their fiscal prudence.

Furthermore, because technological advances allow for more and more services to be performed remotely, consumers could easily take their business across state lines. The result would be widespread damage to Maryland companies and less revenue than expected for the government.

III. Alternatives to Higher Taxes

Heaping $214 million in taxes onto the back of the tech sector is a bad idea, but simply shifting that burden to another less politically powerful group is equally misguided. Instead of imposing harmful taxes on hard-working citizens, the Assembly ought to focus on the state's real problem: overspending.

In a 2006 study of Maryland fiscal trends, my former colleague Sam Batkins examined fiscal trends in Maryland and came to some very disturbing conclusions. If Maryland had restrained spending in the previous decade to the common-sense limitation of population growth plus inflation, the burden on taxpayers would have been $9 billion lighter in 2006. That would have amounted to an additional $1,500 for every man, woman, and child to invest, and otherwise help to reinvigorate in our slowing economy.[3]

Rather than raising taxes in a time of economic difficulty, the Assembly ought to consider eliminating wasteful and low-priority spending. In a cursory glance at the budget, NTU identified nearly $130 million worth of deferrable, questionable, or simply unnecessary spending.[4] This includes $39.4 million for a physical education complex at the 4,100-student Coppin State University and $3 million for "oyster restoration." Perhaps most ironic is the $72.5 million for "business development programs." By voting for SB 41, the Assembly can institute a $214 million "business development program" by lowering taxes currently aimed at a successful portion of Maryland's economy.

IV. Conclusion

A 6 percent computer services tax would prove devastating to hundreds of businesses and thousands of individuals throughout the state, would push business across the border to lower-tax jurisdictions, and likely wouldn't raise the projected amount of revenue. Simply stated, it is an ill-advised tax that should be repealed before it has a chance to harm Maryland's economy.

SB 41 would do exactly that by correcting the mistake of the 2007 special session and doing away with the computer services tax. With taxpayers across the entire economic spectrum facing severe new increases in the burdens they bear for state government, repeal of this tax to protect a vital source of future prosperity and expansion is sorely needed. Thank you, Chairman Currie, for allowing us to submit this testimony and again, on behalf of our 7,100 Maryland members, NTU is pleased to offer our support for this important measure.

Notes

[1] WBAL-TV Staff, "Computer Industry Lobbies To Cut Tech Tax." <u>WBAL-TV Baltimore Online</u>, February 27, 2008, http://www.wbaltv.com/news/15430555/detail.html.
[2] Tom Loveland, "Computer Tax Will Hurt Md." *The Washington Post*, January 7, 2008, http://www.washingtonpost.com/wp-dyn/content/article/2008/01/06/AR2008010601777.html.
[3] Sam Batkins, "Maryland's Fiscal Folly: The Taxpayer's View," The National Taxpayers Union Foundation, NTU Foundation Issue Brief 152, February 22, 2006, http://www.ntu.org/main/press_issuebriefs.php?PressID=815&org_name=NTUF.
[4] Department of Budget & Management, <u>Maryland Budget Highlights</u>., "FY 2009," January 16, 2008. Accessed March 10, 2008, http://dbm.maryland.gov/dbm_publishing/public_content/dbm_taxonomy/budget/publications/budget_highlights/fy09_budgethighlights.pdf.