

Repeal sales tax on computer services

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Maryland's Democratic legislators don't get it. So few of them have ever worked in the private sector - except as lawyers suing parts of it - that they have no clue how their newly enacted taxes will injure entrepreneurs, their employees and their families.

A case in point is their decision to extend the sales tax to computer services. Nine out of 10 information- technology businesses in Maryland employ fewer than 20 people. That means they are not IBM or Best Buy, with its legions of "Geeks" and other support staff and government relations divisions.

Not all IT companies will be taxed.

But the biggest portion of those soon to be taxed - those who fall under the state's Department of Labor, Licensing and Regulation category of "Computer Systems Services" and employ 54,000 according to 2005 statistics - are the smallest of all information technology businesses in Maryland.

That means the impact of the taxes can't be spread throughout hundreds of employees. At the same time, clients of those businesses may decide against upgrading systems or choose a less expensive system to afford the tax, and businesses will have to sell more to stay even. An extra \$600 on a \$10,000 system for a small business is big bucks. For legislators who have never had to make a payroll, cutting spending may be a foreign concept, however.

Raise prices, you say? Unlike legislators, business owners can't compel people to pay more.

And as we mentioned last week, the entire tax package could not have come at a worse time. Fallout from the subprime mortgage lending mess shows no signs of stopping. Housing sales fell 31 percent last month in the Baltimore region from the previous year and consumer confidence is at its lowest level since October 2005 when petroleum prices soared following Hurricane Katrina and other storms that destroyed New Orleans and shut down many oil refineries.

This is not a fortuitous economic backdrop for businesses that must also face the burden of higher taxes next year.

The only upside to the situation is that it may be an impossible task for the comptroller to track all of the businesses that fall under the new legislation. And lawsuits by those firms contesting their inclusion could snarl state plans to collect revenue.

We urge lawmakers to immediately repeal the tax on their return in January. For them to increase taxes in the special session without first assessing specific cuts in the state budget is immoral and irresponsible.