Maryland's Sales Tax on IT and Data Services

Sarah Sawyer: Welcome to this week's OK at Work with myself, Sarah Sawyer, my colleague Russell Berger, both attorneys at Offit Kurman, and today we are talking about a new sales tax in Maryland, which is taxing IT services.

This is going to be a new tax obviously on a variety of different services. IT services is an industry where as technology continues to advance, there's more and more companies in that space, more and more business for folks in that space. And looks like Maryland's trying to capture, some of that benefit from that boom in services in the states.

So what should business owners who are in IT service spaces be considering, Russell?

Russell Berger: Especially because the tax doesn't just apply to IT services, it applies to data services as well. Data storage being one of the growing industries really across the country. But certainly here in Maryland as well.

Those data [00:01:00] centers, there's going to be a sales tax on that. So this is a sales tax. When this was originally proposed in the legislature in Maryland. It was proposed as a professional services tax. It got skinny down to it, so, had it passed in its original form, for example, us as lawyers, we would've had to charge this 3% sales tax as well.

But instead this is just applies to certain IT and data services. Those companies are going to now need to charge an extra 3%. And for those companies, they're going to have to figure out how to get registered for a license with the state to collect and process sales tax, which is not something that, professional services, including IT are used to.

They're going to have to figure out, are there things that are taxable? Are there things that are not taxable? And then there's a whole host of nuanced and detailed questions that go along with it that they're going to have to navigate as well.

Sarah Sawyer: Yeah, this is a new change as of July 1st.

It's new and everyone's going to have to comply quickly with it given that it's already [00:02:00] here. And I think it'll definitely change, obviously, potentially the pricing models for these things and passing things on to customers and having to adjust how they might be doing business as well.

Because initially I think a lot of these companies will be having to eat the cost if they have long-term contracts with folks as opposed to baking it in. But it'll be interesting to see how the industry adjusts to pass on that cost potentially to those that they serve.

Russell Berger: Yeah. And there's going to be some pushback even though there's a recent bulletin update from the state on how to apply this. It's still going to be tested and prodded and it's still an evolving thing.

Both for, those collecting the taxes as well as for the companies that are going to be paying them. It's something to pay a lot of attention to and stay on top of as things go forward. Heard stories of, can we register outside the state?

Will that change? Does it matter where the services are provided? I hire employees remotely, does that mean it's not Maryland? What if I'm competing for work outside the state of Maryland, but I'm here? That whole host of questions as to when does the tax apply and when doesn't, [00:03:00] which really, makes a huge difference because other states don't have this tax.

Being able to compete outside the state whatever inside and outside the state mean in this context is really important to figure out as well.

Sarah Sawyer: Well, thanks Russell, and we'll see you next time.

Russell Berger: Thanks Sarah.