Maryland's Sales Tax on IT Services: Key Insights and Compliance Tips

July 1, 2025

As part of its 2025 Budget Reconciliation and Financing Act, Maryland is introducing a 3% sales and use tax on a broad range of information technology (IT) services, effective July 1, 2025.[1] This "tech tax" is designed to modernize the state's tax base and capture revenue from the rapidly expanding digital economy. The new law will impact service providers and purchasers across sectors, requiring careful attention to compliance and timely updates to accounting and billing systems.

Scope of the New Tax

The tax applies to IT and data services classified under specific North American Industry Classification System (NAICS) codes: 518 (data processing, hosting, and related services), 519 (web search portals, libraries, archives, and other information services), 5415 (computer systems design and related services), and 5132 (software publishing services). Covered services include cloud storage, web and server hosting, SaaS offerings, IT consulting, custom software development, and more.[2]

Notably, the law eliminates the prior exemption for custom software and related services, meaning that even fully customized solutions, regardless of delivery method, are now taxable.[3] The tax rate is set at 3%, unless the service qualifies as a digital product or tangible personal property, in which case the standard 6% rate applies.

Clarifications from Maryland Technical Bulletin No. 56

Maryland Technical Bulletin No. 56, published June 10, 2025, provides essential clarifications on the new sales and use tax for IT services. The Bulletin explicitly states that taxability is determined by the nature of the service provided, not the primary NAICS code reported by the business for federal or state income tax purposes. Each service must be evaluated individually against the NAICS activity descriptions for data or IT services and software publishing as defined by Maryland law.[4]

For example, even if a business's primary NAICS code is not one of the specified codes, any services it provides that fall under NAICS sectors 518, 519, 5415, or 5132 are subject to the 3% tax. Similarly, the NAICS code listed in a procurement contract is not determinative; taxability is based on the actual service provided.[5] The Bulletin also clarifies that the tax applies to internal services provided by one affiliated company to another, even if provided at cost, unless a specific exemption applies.

Regarding timing, the Bulletin explains that for subscription-based services, each payment after July 1, 2025, is considered a separate sale and is taxable. However, installment or credit sales where the contract was executed before July 1, 2025, are generally not taxable, even if payments are made or services are delivered after that date.[6] Change orders expanding the scope of services after July 1, 2025, are considered new sales and are taxable.[7]

Compliance and Exemptions

Businesses must register for a Sales and Use Tax (SUT) license and prepare to collect and remit the new tax. The law provides exemptions for certain research and development contracts, such as those involving the University of Maryland's Discovery District and its quantum computing partners.[8] Additionally, for services used simultaneously in multiple jurisdictions, buyers can provide a Multiple Points of Use (MPU) certificate, shifting the tax remittance responsibility to the buyer, who must apportion the tax based on Maryland usage.[9]

Impact and Next Steps

Maryland's new tax on IT services marks a significant shift in the state's approach to taxing the digital economy. It is expected to increase costs for both providers and purchasers of IT services, particularly in the technology, finance, and government contracting sectors. Businesses should review their service offerings, update compliance protocols, and use guidance from the Comptroller's Office to ensure smooth implementation.

Key Takeaways

- **Effective Date:** July 1, 2025
- **Tax Rate:** 3% on qualifying IT and data services
- **Covered Services:** NAICS 518, 519, 5415, and 5132
- **Clarifications:** Taxability determined by service, not business NAICS code; applies to internal and affiliate transactions; timing rules clarified for subscriptions, installments, and change orders.
- **Compliance:** Register for SUT license, review service offerings, and prepare to collect/remit tax.
- **Exemptions:** Research contracts with University of Maryland Discovery District; MPU certificates for multi-jurisdictional use.

By proactively addressing these changes, businesses can minimize disruption and ensure compliance with Maryland's new sales tax on information technology services.

[1] "Budget Reconciliation and Financing Act of 2025" ("BRFA"), H.B. 325, 2025 Leg. Sess. (Md. 2025).

[2] Comptroller of Maryland, Sales and Use Tax on Data or Information Technology Services and Software Publishing Services: Questions and Answers, Tax Bulletin No. 56 (June 10, 2025) (the "Maryland Technical Bulletin No. 56").

[3]*See* Maryland Technical Bulletin No. 56 *para* I. A. 7.

[4]*See* Maryland Technical Bulletin No. 56

[5]*See* Maryland Technical Bulletin No. 56 *Q&A* I. A. 2.

[6]*See* Maryland Technical Bulletin No. 56 *Q&A* II. C. 13. and 14.

[7]*See* Maryland Technical Bulletin No. 56 *Q&A* II. C. 16.

[8]*See* Maryland Technical Bulletin No. 56 *Q&A* III. B. 27.

[9]*See* Maryland Technical Bulletin No. 56 *Q&A* III. C.