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Tech taxes in some states have failed to take hold

by Kevin J. Shay | Staff Writer
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Some states have repealed or reduced their computer services taxes after opposition from business groups.

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Pennsylvania enacted a 6 percent sales tax on computer services in 1991, but officials repealed it in 1997 after lobbying by organizations such as the Pennsylvania Chamber of Business and Industry in Harrisburg, Pa. That cost the state \$79.1 million in fiscal 1998 alone, according to state figures.

Pennsylvania's ability to compete for economic development projects with other states "was severely crippled" by the tech tax and other taxes implemented in 1991, according to a statement by the state chamber last year.

"Arguably, Pennsylvania's business climate has never recovered," chamber executives said. "The business tax structure continues to have some of the highest rates in the nation and is more burdensome than most others."

A scorecard released by the Pennsylvania chamber last year rated Maryland and New Jersey as the best states for economic prosperity among seven competitors, giving them an A-plus. Virginia received an A-minus, Delaware a B-plus and Pennsylvania a B-minus.

Connecticut established a 6 percent tax in the late 1980s that included computer consulting and software design but excluded Web services. The tax was reduced by a percentage point each year beginning in 1997 after opposition from members of the Connecticut Business and Industry Association of Hartford and other groups. But the tax was not eliminated altogether after it reached 1 percent.

Florida started expanding its 5 percent sales tax to computer services in 1987, but that lasted only six months after massive opposition. Opponents included advertising agencies, which were targeted to be included in the services tax. Officials raised the general sales tax rather than expand it to services.

Other states tax some computer services, many of which are not included in the Maryland law. Maryland's tax will cover such services as computer facilities management, custom programming, system planning and design, disaster recovery, data processing, installation and repair.

Texas, for instance, taxes installation and data processing but not design and development. Services provided by someone other than the seller of computer software are also exempt, said Diane L. Yetter, founder of the Sales Tax Institute in Chicago and president of Yetter Consulting Services.

If Maryland's computer services sales tax is not repealed by July, it would likely be the nation's most comprehensive and ultimately costly to tech companies, said Karen Syrylo, a certified public accountant and tax consultant with the Maryland Chamber of Commerce.

Over the past few decades, the sales tax base has eroded, partly due to a shift from the consumption of goods to the consumption of services, according to an analysis of tech-tax repeal bills by the Maryland Department of Legislative Services. The analysis cited a 2005 study by the Federation of Tax Administrators that pointed to eight states and Washington, D.C., that taxed at least five out of eight computer

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services the organization reviewed.

That study is not only several years old but the computer services the organization reviewed don't include some in the Maryland law, Syrylo said. "It's not really a fair comparison," she said.

Ronald Alt, a senior research associate with the Federation of Tax Administrators in Washington, said the organization is in the process of updating the study, and he has not found many changes since 2005. Among the computer services in that study are software, programming and data processing.

Maryland taxed 39 services in 2005, including utilities, professional and repair services, according to the study. That was fewer than Pennsylvania, Delaware, Washington, D.C., West Virginia and New Jersey, but more than Virginia and North Carolina.