



Tax Administrators NEWS

Federation of Tax Administrators • 444 North Capitol Street, N.W. • Washington D.C. 20001

Are You Being Served?

FTA Releases New Data on Taxing Services

During the past several decades, the U.S. economy has shifted in configuration, redefining itself as an economy where increased activity is based on service-related transactions. While the sales tax systems in most states were originally designed to tax transactions of tangible goods, a number of states have been able to incorporate various types of services into their sales tax bases. To assist state tax policymakers in better understanding the issues and possible solutions, FTA undertook an in-depth survey in 1990 to determine the breadth of state sales taxes as applied to services. It was updated in 1992 and again in 1996. This article discusses FTA's recent update of the service taxation survey to include services taxed as of July 1, 2004.

The survey catalogs state practices in the taxation of over 160 service-related transactions under the general retail sales tax or another special excise or gross receipts tax. With the 2004 update, four new services were added: Dial-up Internet access, broadband internet access, direct satellite TV, and architectural services -- bringing the total to 168 services.

A comparison of the aggregate data from the 2004 and 1996 surveys shows only minor changes to how services are taxed in the states. The strong economy and growing revenues has led state policymakers to be reluctant to impose tax increase or new



types of taxes. Indeed, no state has undertaken a broad-based expansion since Florida in 1987 and Massachusetts in 1990, which were both later repealed. Nebraska was the only state to pass legislation enacting new services to the sales tax base.

Since the 1996 survey, most states made only minor changes adding or removing a few selected services from the sales tax base. However, in 2002, Nebraska policymakers enacted legislation eliminating exemptions for certain services taxable in neighboring states. This legislation increased the number of

(Continued on page 37)

Inside

One-Liners GAO Tax Gap Study • 2005 Annual Meeting Preliminary Agenda

Services — Continued from page 37

bia and Texas tax more computer services than is the norm for most states.

Of the four services added to the survey for 2004, architectural services were taxed by the fewest states—the five states taxing other professional services. Satellite television is taxed in 21

states, compared against 25 that tax cable TV. Also, many of the states exempting satellite TV still tax the sales or rental of equipment. Finally, dial-up internet access is taxable in 11 states, while broadband service is taxable in 15 states.

The FTA work on the taxation of services is intended to assist state tax administrators and others in assessing the potential for and the implication of taxing services. More detail on the survey including the survey results will be available soon on the [FTA website](#).

	Utilities	Personal Services	Business Services	Computer Services	Admissions/Amusements	Professional Services	Fabrication, Repair & Installation	Other Services	Total
Alabama	12	2	6	3	10	0	1	3	37
Alaska /1	0	0	0	0	0	0	0	1	1
Arizona	12	2	5	1	11	0	2	25	58
Arkansas	16	7	12	1	12	0	11	13	72
California	4	2	7	2	1	0	3	4	23
Colorado /1	4	0	2	1	2	0	3	2	14
Connecticut	10	9	20	6	10	0	11	14	80
Delaware /2	9	20	33	6	10	9	19	37	143
Dist. of Columbia	12	8	11	8	7	0	13	11	70
Florida /1	7	4	8	2	13	0	16	14	64
Georgia	10	4	5	2	8	0	1	6	36
Hawaii	16	20	34	8	14	9	18	41	160
Idaho	0	3	5	0	11	0	6	5	30
Illinois	12	1	1	1	0	0	1	1	17
Indiana	7	4	3	2	3	0	0	4	23
Iowa	13	15	18	1	13	0	14	20	94
Kansas	7	10	9	1	13	0	16	15	71
Kentucky	11	2	4	2	6	0	3	1	29
Louisiana	10	8	5	3	9	0	13	7	55
Maine	9	1	6	0	2	0	4	2	24
Maryland	5	3	13	1	11	0	4	2	39
Massachusetts	9	1	4	0	1	0	2	2	19
Michigan	12	2	7	1	1	0	1	2	26
Minnesota	15	7	12	2	14	0	6	11	67
Mississippi	10	5	8	3	11	0	14	23	74
Missouri	8	1	2	2	11	0	0	4	28
Montana	12	0	0	0	3	0	0	4	19
Nebraska	14	8	15	3	12	0	13	11	76
Nevada	0	1	3	0	7	0	1	3	15
New Hampshire	6	1	0	2	0	0	0	2	11
New Jersey	10	2	10	0	6	0	14	13	55
New Mexico	16	20	32	8	14	9	18	39	156
New York	4	4	13	1	5	0	14	15	56
North Carolina	10	5	5	0	8	0	1	1	30
North Dakota	6	1	4	2	11	0	1	2	27
Ohio	8	12	14	5	3	0	12	14	68
Oklahoma	8	3	4	2	10	0	0	5	32
Oregon	0	0	0	0	0	0	0	0	0
Pennsylvania	9	6	16	1	1	0	14	8	55
Rhode Island	10	1	6	3	4	0	3	2	29
South Carolina	4	6	6	4	10	0	1	3	34
South Dakota	14	19	28	8	13	5	18	41	146
Tennessee	11	10	7	3	12	0	13	11	67
Texas	12	10	14	8	12	1	11	13	81
Utah	7	8	6	0	10	0	15	11	57
Vermont	6	2	5	2	11	0	2	1	29
Virginia	1	3	4	0	1	0	4	5	18
Washington /2	16	20	33	8	12	9	16	43	157
West Virginia /1	10	17	26	4	13	1	13	26	110
Wisconsin	11	11	7	3	14	0	14	14	74
Wyoming	10	6	7	3	7	0	16	13	62
Total	16	20	34	8	15	9	19	47	168

Source: Federation of Tax Administrators, Sales Taxation of Services, 2004.

/1 1996 data. /2 Includes the business license tax in Delaware and the business occupation tax in Washington.