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2017 Revenue Estimating Conference

The 2017 FTA Revenue Estimating Conference will be held September 23-27 at the Doubletree Omaha Hotel in downtown Omaha, NE. **Early bird registration closes September 14.**

- [Registration is Now Available](#)
- [Preliminary Program is Available](#)

See the conference website at taxadmin.org/rev_est for more information.

FTA Survey of Services Taxation - Update

The sales tax has been a revenue mainstay for state governments for many years, since it was first created in the 1930's. Yet, several factors have weakened its effectiveness as a major source. This article discusses one of these factors, the growing share of consumer spending on services. We show that states vary widely to the degree that they tax services.

In order to assist policymakers in understanding the degree that states tax services, FTA conducted a survey of service taxation. First published in 1990, the survey has been updated several times, most recently in 2007. This article presents the preliminary data on the latest update, the services taxed as of January 1, 2017.

FTA sent a list of over 176 different services and asked the states to list the taxable status of each service. (eight online computer services were added with the last update.) A tax official in each state specified whether the sales tax applied, a special excise or gross receipts tax applied, or whether the service was exempt from taxation. Space was also provided for the official to describe exceptions and include notes to clarify the status. Users should note that the list of services in this survey is not a comprehensive list of all services that can or should be taxed. The list was selected to identify different categories in order to provide researchers with a picture of how much each state taxes services. The preliminary results are summarized in the table on the next page. FTA received responses from 42 states and the District of Columbia. For states not responding, the 2007 responses are used in this table.

The results of this survey illustrate that most states tax services to a certain degree. Despite the political rhetoric, there are many services that do not pose controversy and are widely taxed. As the table illustrates, utility services are taxed in most all states. Hotel or lodging services are taxed in all states (some at the local level). Also, admissions and repair services are taxed in many states. On the other hand,

fewer states tax personal and business services. Professional services (doctors, lawyers) are taxed in only 7 states.

Only Hawaii and New Mexico have broad-based sales taxes that include most all the services (167 and 164, respectively) tracked by the survey. Delaware and Washington tax a large number of services, mainly through their low-rate business gross receipts taxes. South Dakota and West Virginia are the only other states to tax more than 100 services. These states and Texas, which taxes land surveying, are also the only states to tax any of the 9 professional services tracked by this survey.

While no state enacted a broad-based expansion of the sales tax to services during this period, three states enacted legislation selectively broadening the base.

Several other states tax a large number of selected services. These include Arkansas, Connecticut, the District of Columbia, Iowa, Kansas, Mississippi, Nebraska, New Jersey, Ohio, Tennessee, Texas, and Wisconsin. These states widely tax utilities, admissions/amusements and repair services, but leave professional services largely untaxed. Of these states, Connecticut, the District of Columbia and Texas tax more computer/online services than is the norm for most states. Also, Connecticut taxes more business services while Iowa taxes more personal and business services than others in this group.

Changes Since 2007

While no state enacted a broad-based expansion of the sales tax to services during this period, three states enacted legislation selectively broadening the base. These

legislative changes significantly increased the reported number of services taxed in Connecticut, the District of Columbia and North Carolina.

Facing a weakening fiscal condition, Connecticut lawmakers enacted an FY2012 budget that raised the sales tax rate to 6.35% and expanded the base to selected business and personal services. Again in 2015, the legislature repealed the exemption for car washes and parking lots. These changes increased the number of services taxed from 85 in 2007 to 99.

The District of Columbia, in the FY2012 budget, expanded the sales tax to include more business services. In the FY 2015 budget, the District added several personal services to the sales tax base, including storage, carpet clean, health-clubs bowling alleys and more. The total number of services taxed by the District increased from 75 to 91 in 2017.

North Carolina enacted a tax package that reduced the income tax rates and expanded the sales tax base to various services. Effective in 2016, the state began applying the sales tax to retailers who sold Repair, Maintenance, and Installation services (RMI). Effective January 1, 2017, the state expanded the definition of retailers to all providers of RMI services, except capital improvements to real property. As a result of these changes, North Carolina increase from only taxing 36 services in 2007, to now taxing 62 of the services covered in the survey.

The FTA work on the taxation of services is intended to assist state tax administrators and other in assessing the potential for and the implication of taxing services. This 2017 update provides a more current picture of who is taxing what. A preliminary spreadsheet with the data is available on the private section of taxadmin.org/research. More information will be available soon on the public [FTA website](#).

Number of Services Taxed by Category and State - January 2017

	Utilities	Personal Services	Business Services	Computer Services	Online Services	Admission Amusement	Professional Services	Fabrication, Repair & Installation	Other Services	Total
AL	12	1	6	3	6	10	0	1	3	42
AK	0	0	0	0	0	0	0	0	1	1
AR	16	7	12	1	0	12	0	11	14	73
AZ*	12	2	7	0	5	9	0	2	23	60
CA	2	2	7	1	0	1	0	3	5	21
CO*	4	1	2	1	5	2	0	3	3	21
CT	10	9	21	6	8	10	0	10	25	99
DE	9	20	34	6	8	10	9	19	37	152
DC	14	9	17	6	4	10	0	14	17	91
FL	9	4	11	0	2	13	0	15	15	69
GA	10	4	5	2	0	8	0	1	6	36
HI	16	20	34	8	6	14	9	18	42	167
ID	0	3	4	0	4	9	0	6	4	30
IL	12	2	1	1	1	9	0	1	2	29
IN	12	4	3	1	5	3	0	1	7	36
IA	10	15	17	0	1	13	0	13	20	89
KS	10	10	9	1	1	13	0	15	15	74
KY	11	2	4	1	6	8	0	4	4	40
LA*	10	8	5	3	5	9	0	13	7	60
ME	10	1	6	0	5	3	0	4	4	33
MD*	5	3	13	1	0	11	0	4	3	40
MA*	9	1	4	0	1	1	0	2	1	19
MI	12	2	7	1	1	1	0	1	2	27
MN	15	8	11	0	6	12	0	6	9	67
MS	10	5	8	3	7	11	0	13	22	79
MO	8	1	2	1	0	10	0	0	2	24
MT	12	0	0	0	0	1	0	0	4	17
NE	14	10	14	3	6	12	0	12	10	81
NV	0	1	4	0	0	7	0	2	7	21
NH	6	1	0	0	0	0	0	0	2	9
NJ	12	6	17	1	4	7	0	15	22	84
NM*	16	20	32	8	6	14	9	18	41	164
NY	5	5	13	1	1	6	0	14	19	64
NC	12	7	8	0	6	9	0	14	6	62
ND	4	1	4	2	1	8	0	0	2	22
OH	8	11	14	5	8	13	0	11	16	86
OK*	9	3	5	1	0	10	0	0	5	33
OR	0	0	0	0	0	0	0	0	1	1
PA	9	5	16	4	8	2	0	14	9	67
RI*	10	1	6	3	0	4	0	3	2	29
SC	4	6	7	4	2	10	0	1	5	39
SD	14	19	28	8	8	13	5	18	39	152
TN	11	10	7	3	6	12	0	14	13	76
TX	12	10	14	8	8	12	1	10	15	90
UT	7	8	6	0	5	11	0	15	12	64
VT	9	2	5	1	6	11	0	2	1	37
VA	1	3	4	0	0	1	0	4	4	17
WA	16	20	33	8	8	13	9	16	44	167
WV	8	18	27	4	5	13	1	13	26	115
WI	11	10	8	3	7	14	0	13	16	82
WY	10	7	5	4	5	6	0	16	13	66
Total	16	20	34	8	8	15	9	19	47	176

* State Did not Respond, 2007 data reported
Source: FTA Survey.

Latest Links:

- [The Atlanta Federal Reserve Banks GDPNow Model Forecasts 3rd Qtr. Growth rate of 2.9%.](#)
- [Federal Reserve July 2017 Coincidence Index](#) - Shows Weakness in Northeast with 9 States Declining.

More links are available on taxadmin.org/research