



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no state has undertaken a broad-based expansion since Florida in 1987 and Massachusetts in 1990, which were both later repealed.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

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services taxed from 49 (as recorded in the 1996 survey) to 76 (by 2004). These increases came in the following areas: Business taxes, added nine services; repair services, adding eight services; and seven other miscellaneous services were also added.

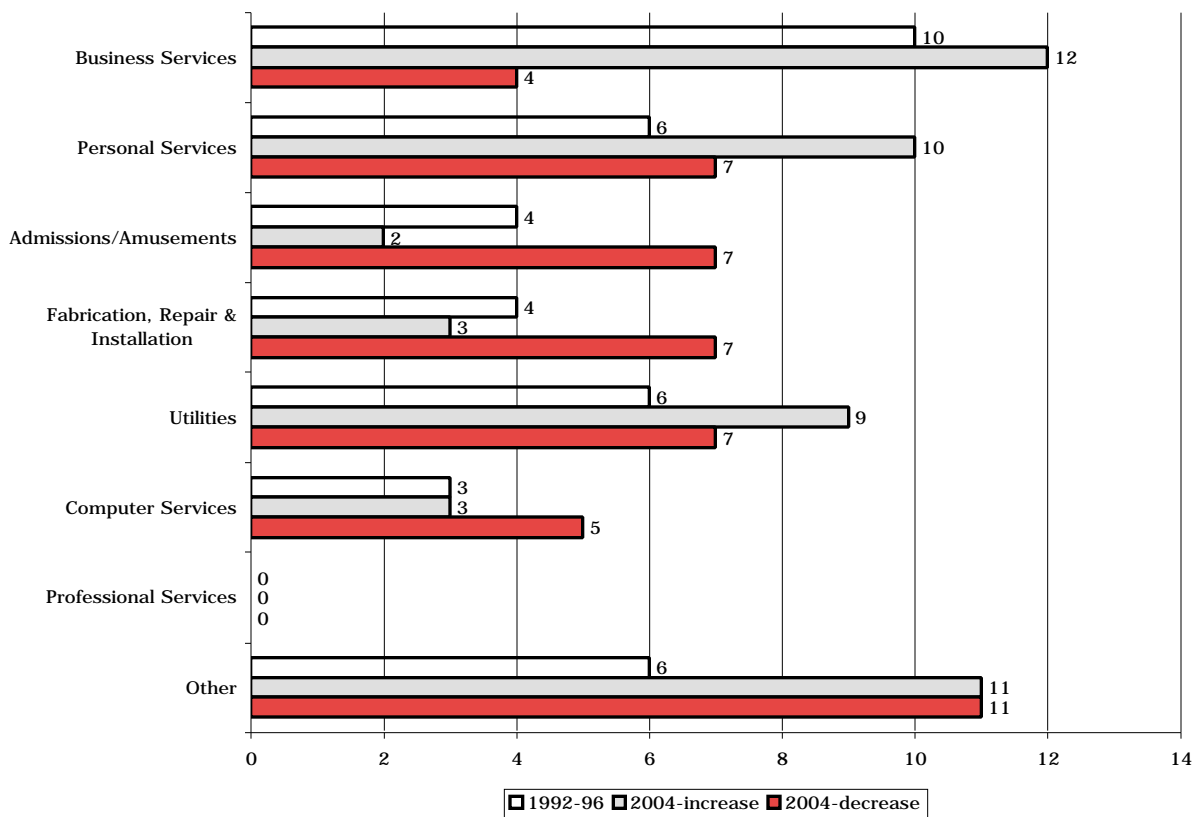
The accompanying figure summarizes the types of services added to the tax base between the 1992 and 1996 surveys, and then between the 1996 and 2004 surveys. By presenting the number of states adding or exempting at least one service to each category, the figure illustrates the categories with the most change in services taxed. It also shows how few states made changes in the number of services taxed. Most of the activity

service. Still, no state added any new professional services to the sales tax base during either period.

The accompanying table summarizes the number of services each state taxes by major category. While it shows how most states apply taxes to certain admissions, utilities and lodging services, the table also illustrates the wide variation in the degree they tax other services. Only Hawaii and New Mexico have broad-based sales taxes that include almost all the services (160 and 156, 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.

Several other states tax a large number of selected services. These include Arkansas, Connecticut, District of Columbia, Iowa, Kansas, Mississippi, Nebraska, Texas, and Wisconsin.

Total States Increasing/Decreasing Services Taxed, 1992-2004



during both periods is in the business service category, with 12 states adding new business services in 1996-04 and 10 in 1992-96. Meanwhile, four states removed at least one business service from the tax base. The next most common category to see increases was personal services, with ten states adding services and seven removing services. The computer services categories saw five states exempting a service, with only three adding a

These states widely tax utilities, admissions/amusements and labor and repair services, but leave professional services largely untaxed. Within this group, Connecticut, the District of Colum-

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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.