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## FTA Survey of Services Taxation - Update

Few issues stoke the political fires more than taxation of services. In order to assist policymakers and tax policy researchers in this area, FTA conducted a survey of service taxation in 1990. The survey has been updated periodically, last in 2004. This article presents preliminary data on the latest update, services taxed as of July 1, 2007.

FTA sent a list of 168 different services and asked states to list the taxable status of each service. A tax official in the state specified whether the sales tax applied, a special excise or gross receipts tax applied, or whether the service is 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 2004 responses are used in this table.

The results of this update 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. 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 (160 and 158, 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 the survey.

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### **When comparing the 2007 results with the 2004 survey, we find that very little has changed in the level of state service taxation**

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Several other states tax a large number of selected services. These include Arkansas, Connecticut, District of Columbia, Iowa, Kansas, Mississippi, Nebraska, New Jersey, Texas, and Wisconsin. These states widely tax utilities, admissions/amusements and labor and repair services, but leave professional services largely untaxed. Of these states, Connecticut, District of Columbia and Texas tax more computer service 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 2004**

When comparing the 2007 results with the 2004 survey, we find that very little has changed in the level of state service taxation. The strong economy and good state finances have led policymakers to be reluctant to impose tax increases or new type of taxes. Only New Jersey enacted legislation to expand the taxation of services. Maryland and Michigan also enacted legislation to tax additional services but legislation in these states was repealed before implementation.

Facing a budget deficit in 2006 and a need to provide local property tax relief, New Jersey lawmakers enacted a tax package that included an increase in the sales tax rate and broadened the base to include more services. Some of the services included in the tax base include storage, tanning and massage services, limousine services and information services. This raised the number of taxable services from 55 services in 2004 to 74 services in the current survey.

Also facing a budget deficit, Maryland lawmakers in a 2007 special session enacted a tax package that increased sales and income taxes and extended the sales tax to computer services. After much debate, the sales tax expansion to services was repealed before the July 2008 implementation date, with an income tax surtax replacing the revenues.

As part of the state's effort to restructure its business taxes, Michigan's legislature expanded the sales tax to include 23 services, effective December 1, 2007. Some of the services included in the legislation were business service center services, consulting and investment advice services, janitorial and landscaping services, warehousing, packaging, procurement services and many personal services such as concierge and psychic services. The service tax was repealed on December 1, 2007, with a business surcharge imposed to replace the revenue.

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. This 2007 update provides a more current picture of who is taxing what. A [preliminary spreadsheet](#) with the data is available on [TaxExchange](#), and more information will be available soon on the [FTA Home Page](#).

**Have You Made Your Hotel Reservations?** The Annual FTA Revenue Estimating and Tax Research Conference will be held September 14-17, 2008, at the Holiday Inn By the Bay in Portland, Maine. Conference and Hotel Registration are available on the conference website [http://www.taxadmin.org/rev\\_est/](http://www.taxadmin.org/rev_est/).

**The Deadline for hotel reservations was August 12.** If you have not made reservations, call the hotel as soon as possible at 1-800-345-5050 to make your reservations. Tell the reservation agent that you are attending the FTA conference.



### Number of Services Taxed by Category and State - July 2007

	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 *	0	0	0	0	0	0	0	1	1
Arkansas	16	7	12	1	12	0	11	13	72
Arizona	12	2	7	0	9	0	2	23	55
California	2	2	7	2	1	0	3	4	21
Colorado *	4	0	2	1	2	0	3	2	14
Connecticut	10	9	20	6	10	0	10	14	79
Delaware *	9	20	33	6	10	9	19	37	143
District of Columbia	13	7	15	6	8	0	12	12	73
Florida	7	4	9	0	14	0	16	13	63
Georgia *	10	4	5	2	8	0	1	6	36
Hawaii	16	20	34	8	14	9	18	41	160
Iowa	13	15	18	1	14	0	13	20	94
Idaho	0	3	5	0	11	0	6	4	29
Illinois	12	1	1	1	0	0	1	1	17
Indiana	7	4	3	2	3	0	1	4	24
Kansas	10	11	9	1	13	0	15	15	74
Kentucky	11	2	4	0	6	0	4	1	28
Louisiana	10	8	5	3	9	0	13	7	55
Maine	9	1	6	0	3	0	4	2	25
Maryland	5	3	13	1	11	0	4	2	39
Massachusetts	9	1	4	0	1	0	2	1	18
Michigan	12	2	7	1	1	0	1	2	26
Minnesota	15	7	12	2	13	0	6	11	66
Mississippi	10	5	8	3	11	0	13	22	72
Missouri	8	1	2	2	10	0	0	3	26
Montana	12	0	0	0	2	0	0	4	18
Nebraska	14	9	14	3	12	0	13	12	77
Nevada	0	1	4	0	7	0	2	4	18
New Hampshire *	6	1	0	2	0	0	0	2	11
New Jersey	12	5	16	1	6	0	15	19	74
New Mexico	16	20	32	8	14	9	18	41	158
New York	4	4	13	1	6	0	14	15	57
North Carolina	10	4	5	0	9	0	1	1	30
North Dakota	6	1	4	2	11	0	0	2	26
Ohio	8	12	14	5	3	0	12	14	68
Oklahoma	9	3	4	1	10	0	0	5	32
Oregon	0	0	0	0	0	0	0	0	0
Pennsylvania	9	5	16	1	1	0	15	8	55
Rhode Island *	10	1	6	3	4	0	3	2	29
South Carolina	4	6	7	4	10	0	1	3	35
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	10	16	83
Utah	7	8	6	0	11	0	15	11	58
Vermont	9	2	5	2	11	0	2	1	32
Virginia *	1	3	4	0	1	0	4	5	18
Washington	16	20	33	8	13	9	16	43	158
West Virginia	6	17	26	4	13	1	13	25	105
Wisconsin	11	11	8	3	14	0	14	15	76
Wyoming	10	6	6	2	6	0	16	12	58
Total Number in Category	16	20	34	8	15	9	19	47	168

\* State did not respond, 2004 data reported  
Source: FTA survey