



Sales Tax on Professional Services

Several state legislatures continue to consider expanding sales tax to services, including professional services such as accounting. The AICPA assists state CPA societies with advocating against a state sales tax on accounting services.

Background

States typically impose sales and use taxes on the sale of tangible personal property and selected services, with a few states broadly taxing all types of services, including accounting services. In the past quarter-century, due in part to stagnant sales and use tax revenue as compared to rising expenditures, numerous states have attempted but failed to broaden the sales tax base to include professional services.

Importance to CPAs

Because of the difficulty surrounding the taxation of professional services, there are several reasons why the imposition of sales and use taxes on accounting services should not be considered by state legislatures:

1. Discrimination against the small and emerging businesses that CPAs represent. Small businesses often are forced to use outside vendors to perform audit, tax and business advisory services. The compliance costs for these items can be substantial and taxing these services will further increase financial pressure on these businesses, essentially limiting the growth of small businesses.
2. Pyramiding taxes on services and final goods. Under a system that taxes accounting services, the potential for goods and services being taxed several times exists as a result of difficult sourcing issues, resulting in higher consumer costs. If tax compliance services are taxed, individuals and businesses will effectively pay a tax for paying taxes.
3. Lack of uniformity between the states. Given the historical state tax landscape, not all states will choose to tax accounting services in a uniform manner, and not all states will define the term “accounting services” similarly, leading to unwanted variability from state to state. States that decide to tax accounting services are at a competitive disadvantage compared to states that do not tax services, especially in an economy where physical location is of decreasing importance. Not only does it discourage the use of services, but it also discourages companies seeking to relocate or expand into these jurisdictions.

AICPA Position

Because of the reasons listed above, the AICPA works with state CPA societies on a state-by-state basis to oppose the imposition of a sales tax on accounting services. The AICPA recognizes that raising revenue to support government programs is an ongoing process that constantly requires the reassessment of current taxing structures. However, as states continue to consider the taxation of additional services, legislatures must understand that some services are more easily subject to a sales tax than others. For example, for services that are performed and received at the same location (e.g., salon services, cleaning services, etc.), the taxing jurisdiction is clearly evident, reducing the complexities around the taxation of

such services. It is also easier to administer a sales tax for services that already collect a tax on the sale of tangible personal property (e.g., car repair). However, professional services can be performed in multiple locations and received in completely different locations, creating a difficult dichotomy for tax compliance. Because of the administrative and technical difficulties associated with the enactment of a service tax on accounting services, the AICPA believes states should seek other alternatives.

State Action

Currently, three states impose some form of tax on accounting services: Hawaii (four percent), New Mexico (five percent) and South Dakota (four percent). In addition to the traditional accounting services, accounting firms may also provide services that could be construed to be “data processing services,” “information services,” and “management services,” which are taxable in several states. Furthermore, in some cases, state legislatures and courts have acted to redefine traditionally non-taxable services as products subject to the sales tax.

Proposals to adopt sales taxes on professional services continue to be introduced across the country. However, proposals previously were defeated in several states, including Utah and West Virginia, with CPAs taking a leadership role in these states. The idea to tax services is not a new one. Florida, Massachusetts, Michigan, and Minnesota all tried to impose sales taxes on services in the past, but their efforts were quickly repealed. States’ attempts in this area are likely to continue as a means to bridge state budgetary gaps and as a part of broader tax restructuring measures.

The Professional Services Alliance has [resources](#) on this issue.