



## Taxes on professional services hurt state and local economies, impacting both businesses and consumers.

**Taxes on services are complicated for businesses to comply with.** Compliance with a sales tax on services is extremely complicated for businesses large and small, and administration by state and local governments is costly. Due to the multi-state nature of customers and service providers, it is often difficult to determine where, when, and how the services are provided and what services are actually subject to tax. Compliance is particularly burdensome on smaller service providers.

What's more, small and emerging firms often must use outside service-providers that would be taxed (such as external legal counsel or tax-filing services), while larger companies with in-house expertise could avoid taxation for such services as a result of vertical integration, further adding to the outsized small-business tax burden.

**Sales taxes on service are regressive for consumers.** By nature, the sales tax is regressive. Since sales taxes apply to all taxpayers at the same tax rate, regardless of income level, sales taxes fall harder on lower-income families with less ability to pay. The Institute on Taxation and Economic Policy (ITEP) estimates that the lowest 20 percent of households (based on income) forgo seven percent of their income to pay sales taxes, while the top one percent forgoes less than one percent.

## Economic theory teaches that business inputs shouldn't be taxed, something that nearly all professional services are.

**Economists and public finance experts agree that business inputs shouldn't be taxed under the sales tax.** When business inputs are taxed, taxes pile up on one another along the production chain, resulting in double and even triple taxation (with taxes becoming embedded in the purchase price)—a phenomenon known as "tax pyramiding." Tax pyramiding leads to numerous negative economic effects, such as creating arbitrary price differences between similar services, industries, and business.

A significant share of professional services are business inputs (that is, business services purchased by other business to be used in the production or provision of another good or service.). The Council On State Taxation (COST) estimates that approximately 42 percent of existing state and local sales taxes are paid by businesses annually (based on 2016 data). Taxing professional services will only exacerbate this problem.