

## Expanding the Sales Tax Base to Services: Background, Implications, and a Prototypical Example

GO TO 2040’s section “Reform State and Local Tax Policy” states that to keep tax rates low and economically competitive, the tax base must also be broad. A “broad tax base” is one with few exemptions or limitations among different businesses, services, or properties. In northeastern Illinois, sales tax rates are often set very high (10% in some local jurisdictions), while the tax base is narrow, covering tangible goods but only a very small percentage of services.

Moreover, the service sector of the economy accounts for a much larger (and growing) proportion of both consumer spending and production than it did fifty years ago. A true “21<sup>st</sup> century tax system” should move closer to reflecting economic realities, while also taking care to avoid economic distortions that might result from including certain types of previously untaxed business activity. Broadening the base may also allow the tax rate to be lowered, which would also reduce economic distortions.

GO TO 2040 provides the following implementation action area, to be executed by the Regional Tax Policy Task Force:

<p><b>Evaluate expanding the sales tax to the service sector</b></p> <p>Lead Implementers: Task Force, CMAP Board, State</p>	<p>Evaluate the impacts of extending the sales tax to some services. Highlight the economic and equity impacts of extending the tax to particular services, but not others. Prepare detailed recommendation.</p>
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This interim report presents background, policy implications, and includes a “prototypical example” which examines the possible impact of a sales tax base expansion to 63 selected services on state sales tax revenues to the CMAP region. This analysis has been done to generate discussion around this issue, and should not be construed as a recommendation by CMAP.

### Background

Taxation of sales became a popular tool in the United States during the Great Depression in response to declining property tax revenues and increasing spending pressures.<sup>1</sup> Illinois first adopted a 2% state sales tax in 1933.<sup>2</sup> During the time that most of these taxes were enacted, the U.S. economy was driven by goods. Illinois’ statewide sales tax, currently set at 6.25%, primarily applies to tangible personal property.<sup>3</sup> Most tangible goods are subject to the tax under the Retailers’ Occupation Tax, Use Tax, Service Occupation Tax, and Service Use Tax, as well as services including prepaid telephone cards, photoprocessing, and canned software or modifications to canned software.<sup>4</sup> There are 14 other services subject to statewide sales taxes at different rates. The State imposes a 6% tax on 94% of gross

<sup>1</sup> Snell, Ronald, “State Finance in the Great Depression,” National Conference of State Legislatures, March 2009, <http://www.ncsl.org/print/fiscal/statefinancegreatdepression.pdf>.

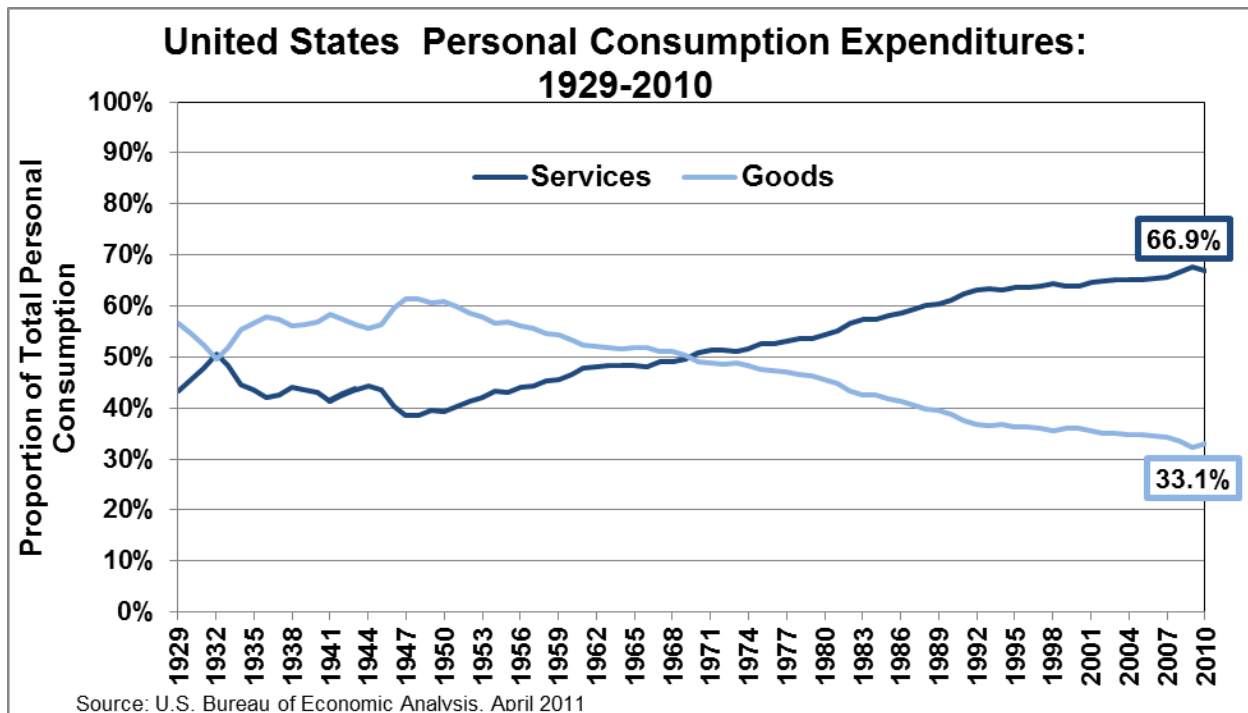
<sup>2</sup> Legislative Research Unit, “Illinois Tax Handbook for Legislators, 2010, Twenty-Sixth Edition”, p 118, <http://www.ilga.gov/commission/lru/2010TaxHandbook.pdf>.

<sup>3</sup> The state sales tax rate for qualifying food, drugs, and medical appliances is 1%.

<sup>4</sup> See 35 ILCS 105/3, 35 ILCS 110/3, 35 ILCS 115/3, 35 ILCS 120/2.

receipts of short-term hotel and motel rentals.<sup>5</sup> Automobile rentals are also subject to a separate statewide tax of 5%.<sup>6</sup> There are also six telecommunication services taxed under the Telecommunications Excise Tax Act at a rate of 7%.<sup>7</sup> An additional six utility services are taxed under the Gas Revenue Tax Act and the Electricity Excise Tax Law at various rates.<sup>8</sup>

Since the sales tax was enacted, changes in the U.S. economy have resulted in increased consumer income and a shift in demand toward services.<sup>9</sup> Between 1929 and 2010, the U.S. transitioned from an economy based on manufacturing and other goods producing industries to a services and information-based economy. With this transition came cheaper and more efficiently manufactured goods from within the country and overseas, rising standards of living, and increased disposable income, resulting in increased demand for services. The early 1970's marked the beginning of an era of spending on services exceeding spending on goods, and since then, spending on services has increased twice as much as spending on goods. In 2010, consumers spent twice as much on services (66.9 percent of total personal consumption expenditures) as on goods (33.1 percent of total personal consumption expenditures). This shift in the fundamentals of the economy has changed the relationship between consumption and tax revenue. The following chart shows personal consumption expenditures in the United States since 1929.



Moreover, there is evidence that services make up an even larger share of GDP, relative to goods, and that the service sector constitutes a large share of the overall regional economy of metropolitan

<sup>5</sup> Hotel and motel rentals less than 30 days are subject to a tax of 6% on 94% of gross receipts. See Hotel Operator's Occupation Tax Act, 35 ILCS 145/3.

<sup>6</sup> See Automobile Renting Occupation and Use Tax Act, 35 ILCS 155/3.

<sup>7</sup> 35 ILCS 630

<sup>8</sup> See 35 ILCS 615 and 35 ILCS 640

<sup>9</sup> "The Service Sector: Give it Some Respect," Federal Reserve Bank of Dallas 1994 Annual Report, pp 3-22, <http://www.dallasfed.org/fed/annual/1999p/ar94.pdf>.

Chicago. In the Chicago-Naperville-Joliet Metropolitan Statistical Area,<sup>10</sup> service-producing industries made up 84 percent of the Gross Regional Product in 2009, up from 80.7 percent in 2001.<sup>11</sup>

### Service Industry in Metropolitan Chicago

Northeastern Illinois is home to 165,033 businesses that provide services to consumers and/or other businesses and the public sector. The following table shows the service industries in metropolitan Chicago based on these classifications.<sup>12</sup>

#### Service Sector Industries in Metropolitan Chicago by Classification

Classification	Number of businesses	Estimated annual sales of services
Consumer services industry	49,516	\$13,880,688,267
Consumer/business services industry	88,931	\$28,002,725,366
Business services industry	26,586	\$23,307,793,017
<b>Total</b>	<b>165,033</b>	<b>\$65,191,206,649</b>

Source: Dun and Bradstreet Market Insight, October 2010; U.S. Census Bureau, 2002 Economic Census

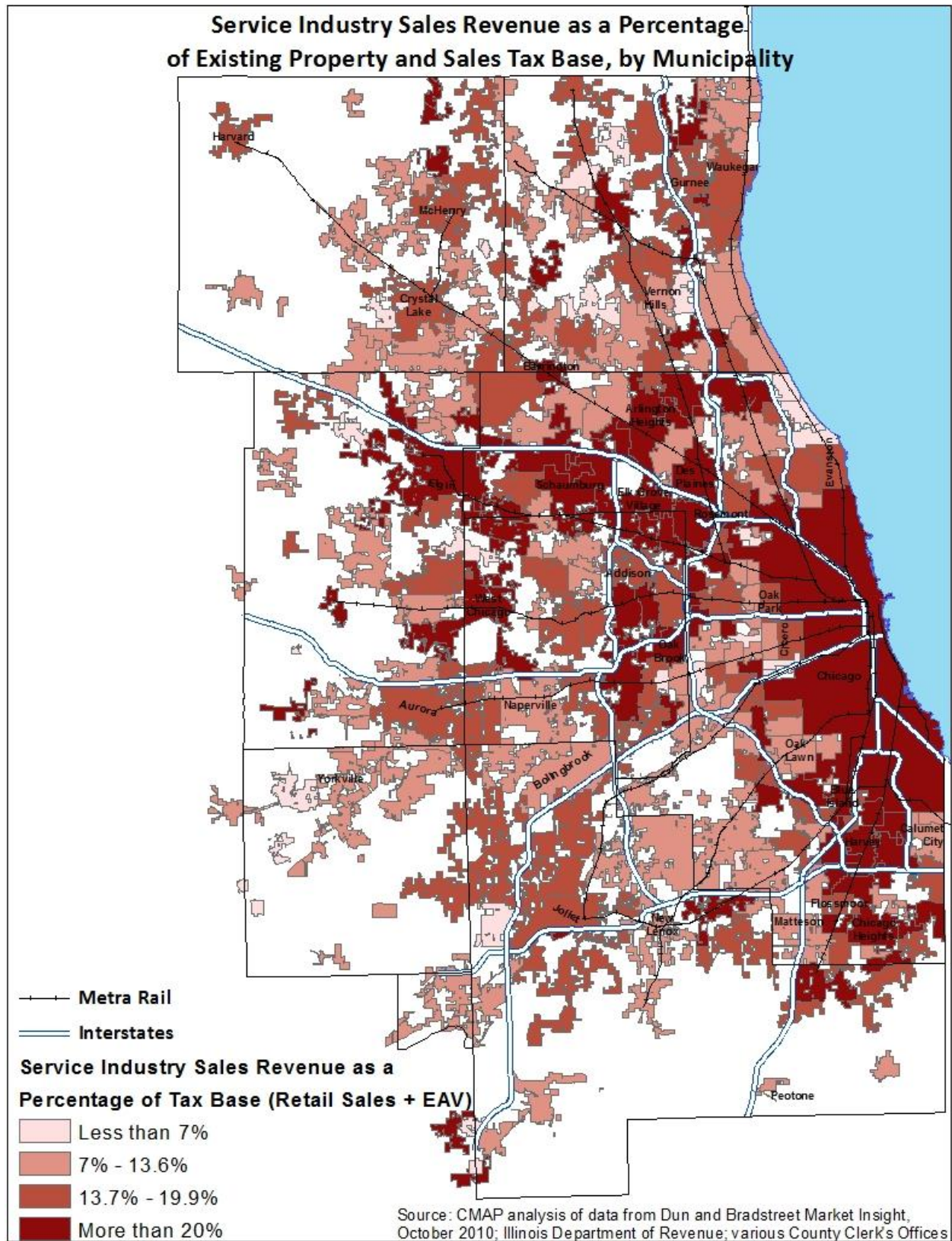
A majority of businesses in the region produce services purchased not only by individual consumers, but also businesses and government. These businesses, including landscaping and transportation services (e.g. privately provided services like limousine, shuttle buses) make up 53.9 percent of the 165,033 service sector establishments in the region. Businesses that provide services primarily to consumers, such as construction, health care, and entertainment, account for approximately 30 percent of service sector establishments. At the same time, almost 27,000 establishments provide services specifically to businesses and government in the region. Most of these services are professional and support services like engineering, architecture, advertising, and administrative services. See Appendix A for an overview of the service industries across the region in each category.

Generally speaking, the service sector is concentrated in areas of the region with a large commercial presence. The following map shows estimated service industry sales revenue in each municipality as a percentage of existing sales and property tax base. The sales and property tax base for each municipality is the sum of the equalized assessed value and sales revenues that fall under the sales tax base under current law. Service industry revenues include estimated revenues for *all services* included in the previous table. To the extent that some “service sales” might include sales of tangible goods (which are already taxed), some revenues may be counted in both service industry revenues and in the current sales tax base. The map indicates that the service sector is often quite pronounced in many communities with a high existing tax base. This is not necessarily surprising, since service industries often locate in proximity to other non-service business activity. However, the data also indicates that some lower tax base areas of the region have a high proportion of service industries, relative to their tax base.

<sup>10</sup> The Chicago-Naperville-Joliet Metropolitan Statistical Area consists of Cook, DeKalb, DuPage, Grundy, Kane, Kendall, McHenry, and Will counties in Illinois, Jasper, Lake, Newton, and Porter counties in northwest Indiana, and Lake and Kenosha counties in Wisconsin.

<sup>11</sup> U.S. Bureau of Economic Analysis, Gross Domestic Product by Metropolitan Area, <http://www.bea.gov/regional/gdpmetro>, accessed May 10, 2011.

<sup>12</sup> This analysis excludes services already subject to a sales tax, such as restaurants and hotels. The classifications were based off the categories and examples discussed in Michael Mazerov, “Expanding Sales Taxation of Services: Options and Issues,” Center on Budget and Policy Priorities, July 2009.





## Implications of Including Services in the Sales Tax Base

This section will outline a few of the issues that must be considered when expanding the sales tax to services.

### Efficiency of the Tax System

An efficient tax system minimizes economic distortions by having a broad rather than a narrow tax base. A broad tax base is one with few exemptions or limitations. The result is that similar households and businesses are taxed in similar ways. A broad tax base also allows for lower tax rates, which can also reduce economic distortions.

By taxing the consumption of goods but not services, the sales tax is not taxing the consumption of resources, but rather the type of product consumed. The tax system would be exerting less influence over consumer choice by taxing both goods and services. For example, under the current system, a person can get upholstery cleaning services tax-free, but must pay a tax to buy upholstery cleaning equipment. In addition, there is some empirical evidence that the focus on taxing goods may have been a contributor of growth in service consumption and decline in the consumption of retail goods.<sup>13</sup> This would constitute an “economic distortion”, where the tax system itself is influencing economic activity.

### Tax Fairness and Equity

The existing sales tax on goods is highly regressive. Lower-income taxpayers typically spend a higher percentage of their incomes on tangible goods than higher-income people. In Illinois, the poorest 20 percent of taxpayers paid 3.5 percent of their income in sales taxes, while taxpayers in the top 1 percent paid 0.5% of their income in sales taxes.<sup>14</sup> Furthermore, some services are consumed more often by higher income people than by lower income taxpayers. It is possible that including some of these services in the sales tax base may help to lessen the regressive nature of the sales tax.

Taxing products such as legal or medical services has drawn controversy because some consider these products essential. Lower income consumers may have trouble paying for the increased cost, which may have negative consequences for both the consumer and society. According to the Federation of Tax Administrators’ survey, only four states tax medical services and only five states tax legal services.

### Revenue Stability

In general, a larger and more diverse tax base may bring more year-to-year stability to sales tax revenues.<sup>15</sup> In addition, consumption of services accounts for the majority of personal expenditures. Therefore, including additional services in the sales tax base may also reduce long-term volatility from changes in consumption patterns.

### Cascading Taxes

While taxing services may increase equity, it may also exacerbate existing problems with taxes on consumption. Under the current system, when a business, such as a retail store, pays a sales tax on a

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<sup>13</sup> Merriman, David and Mark Skidmore. Did Distortionary Sales Taxation Contribute to Growth of the Service Sector? *National Tax Journal* 53, 1 (2000): 125-142.

<sup>14</sup> Institute on Taxation & Economic Policy, “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,” November 2009, <http://www.itepnet.org/whopays3.pdf>.

<sup>15</sup> Dye, Richard A. and Therese J. McGuire. Growth and Variability of State Individual Income and General Sales Taxes. *National Tax Journal* 44, 1 (1991): 55-66; Michael Mazerov, “Expanding Sales Taxation of Services: Options and Issues,” Center on Budget and Policy Priorities, July 2009; Felix, R. Allison, “The Growth and Volatility of State Tax Revenue Sources in the Tenth District,” Federal Reserve Bank of Kansas City, *Economic Review*, 3<sup>rd</sup> quarter 2008, p. 74, <http://www.kc.frb.org/Publicat/Econrev/PDF/3q08Felix.pdf>.

business input, like a cash register or cleaning supplies, the business will pass the cost of this tax onto the customer. When the customer pays a sales tax on their purchase, the result is a tax on a tax, or cascading taxes. If additional business inputs, such as advertising services, were added to the sales tax base, the cascading nature of the sales tax would be amplified.

This is most problematic with taxing industries that primarily sell services to other businesses, because the tax would be imposed on business inputs rather than consumption. There are several ways to limit cascading taxes. Businesses to business transactions could be exempted from the sales tax. Alternatively, services that are primarily purchased by other businesses could be excluded from the expansion. Also, lowering the sales tax rate for both goods and services helps to mitigate the effects of cascading taxes.

### Location of Sale

While there are a number of issues regarding the administration of an expansion of the sales tax, determining whether the good or service is taxed at the business location or the delivery point has a great effect on local governments. For most goods, the business location and the delivery point are the same. However, for many services, such as limousine services, accounting services, and pest control services, the service delivery location is typically different from the business location. This has major implications for the recipient of both state revenue sharing disbursements and home rule and non-home rule sales tax revenue.

According to the Illinois Department of Revenue, the delivery point does not determine the rate of tax in Illinois.<sup>16</sup> Illinois currently is not a member of the Streamlined Sales Tax, which is an agreement implemented in 24 states to simplify sales tax administration. The guidelines specify that when the product is not received at the business location, sales will be sourced to the location where the purchaser receives the product.<sup>17</sup> However, expanding the current state sales tax to services in Illinois would not necessarily coincide with a change related to the location of taxation. All municipalities would likely receive revenue by disbursing by point of delivery for industries that do not deliver services at their business location, because residents of all municipalities are likely to consume these services regardless of whether a business location is in their home municipalities.

An argument for taxing at the point of delivery rather than the business location of the seller is that if a sales tax is a tax on consumption, the tax should be imposed where the product is consumed. However, using the point of delivery is more difficult to administer for businesses that provide services at the customer's location (such as landscaping) rather than at their business location. Alternatively, if local governments were not able to impose home rule and non-home rule sales taxes on services and if state sales tax revenues from services were not shared with local governments based on location of sale, sourcing rules for taxing services may not need to be developed.

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<sup>16</sup> Illinois Department of Revenue, Publication 113 Retailer's Overview of Sales and Use Tax, p. 7, September 2010, <http://www.revenue.state.il.us/Publications/Pubs/Pub-113.pdf>.

<sup>17</sup> Streamlined Sales and Use Tax Agreement, Section 310: General Sourcing Rules, December 13, 2010, [http://www.streamlinedsalestax.org/uploads/downloads/Archive/SSUTA/SSUTA%20As%20Amended%2012\\_13\\_10.pdf](http://www.streamlinedsalestax.org/uploads/downloads/Archive/SSUTA/SSUTA%20As%20Amended%2012_13_10.pdf). The agreement only allows sourcing at the location where the order was received for tangible personal property and digital goods.

## Prototypical Example of Expanding the Sales Tax to Services

This section will explore how expanding the sales tax base to the service sector would affect sales tax disbursements in the region.<sup>18</sup> If the base of the 6.25% sales tax were expanded to *all of the service industries* outlined in the first section of this report under current revenue sharing criteria, an additional \$814.9 million would be disbursed to local governments in northeastern Illinois. Statewide, this would generate an additional \$10 billion in state sales tax revenues for the State<sup>19</sup> and local governments. This estimate includes 118 different service industries and sales to all customers, including individuals, businesses, governments, and nonprofit entities. See the Methodology section of this report for further detail on the development of the revenue estimates provided in this section. This estimate includes a larger number of services relative to what other states include in their tax bases.

Some of the implications listed in the previous section indicate that taxation of *all services* may be impractical and possibly economically disruptive. In reality, the majority of states tax a narrower array of services. The Federation of Tax Administrator's 2007 survey of sales taxation of 168 services revealed that the median number of surveyed services taxed by each state was 55. Excluding utilities, the median number of states taxing each service was 15. See Appendix B for a summary of the results of the FTA survey. To estimate revenues from a smaller universe of services, 63 services were chosen based on the following criteria:

- Services that are more frequently included in the sales tax base by other states were selected by including services taxed by at least 15 states;
- Services that have been previously proposed for inclusion in the Illinois sales tax base were selected by including several services that had been proposed for taxation in a bill<sup>20</sup> passed by the Illinois Senate in 2009;
- Other services were selected that presented fewer problems with cascading or sourcing the location of sale.

If this smaller universe of 63 services was added to the sales tax base and the tax was imposed for sales to all customers (including businesses, nonprofits, and governments), \$210.2 million in additional revenue would be disbursed to location governments in the region under the current revenue sharing system. Statewide, this would generate an additional \$2 billion in state sales tax revenues for the State and local governments.

Under some proposals and estimates to expand the sales tax, businesses are excluded from paying sales taxes on service purchases in order to lessen cascading taxes. In addition, governments and nonprofit customers are exempt from paying the current sales tax under certain circumstances. Exempting business, government, and nonprofit customers resulted in an estimate of \$116.9 million in annual disbursements to the region. This 44.4 percent drop was primarily a result of the reduction in revenues

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<sup>18</sup> Disbursements include 16% of sales tax revenue to municipalities (and counties for sales in unincorporated areas) on sales within their borders and 4% of sales tax revenue to the collar counties and the RTA for sales within their borders.

<sup>19</sup> The State receives 80% of sales tax revenues. Revenues fund the following: 25% to Common Schools Special Account Fund, 1.75% to Build Illinois Fund, 3.8% to Build Illinois Fund to retire bonds, 0.27% to Illinois Tax Increment Fund, 80% of revenue on Illinois coal bought by state financed electric generating facility to Energy Infrastructure Fund, and remainder to General Revenue Fund.

<sup>20</sup> The bill would add 39 services to the Retailers' Occupation Tax Act. See House Bill 174, 96<sup>th</sup> General Assembly, as passed by the Senate.

associated with business-focused industries such as travel agencies and janitorial services. If only government customers were exempted, the expanding base would result in an additional \$203.8 million to the region. See Appendix A for a detailed table on these disbursement estimates. The following table provides a summary of sales tax disbursement estimates.

**Estimated revenue disbursements to the CMAP region from taxing 63 services**

Disbursements with all customers	Disbursements without government customers	Disbursements without business, nonprofit, and government customers
\$210,233,741	\$203,841,835	\$116,856,984

While some advocate expanding the sales tax base to services in order to raise additional tax revenue, the expansion could also allow the tax rate to be reduced. It is difficult to calculate a tax rate for the broader base that would be completely revenue neutral because there may be future shifts in consumption patterns for goods or services. While it is important to ensure that revenues would be unlikely to drop significantly through any rate reduction, in future years, economic and fiscal benefits may arise from the broader base and the lower rate.

In 2010, over \$1.1 billion in state sales taxes was disbursed to municipalities, collar counties, and the RTA. Expanding the sales tax base to 63 additional services would expand the region’s tax base subject to a 6.25 percent rate by 21 percent. If the rate on general merchandise was reduced to 5.25 percent and applied to the 63 services, disbursements from general merchandise and qualifying items would be reduced to \$1.0 billion and disbursements from services would generate \$176.6 million. The region would experience an increase in disbursements of 1.4% in the first year.<sup>21</sup> Depending on how consumption patterns change, this scheme may become revenue neutral or revenue enhancing in future years. In addition, future disbursements may be less volatile due to the expanded base. The following table summarizes revenue estimates under a 5.25% rate.

**Estimated total revenue disbursements to the region if 6.25% rate was reduced to 5.25%**

	Disbursements with all customers	Disbursements without government customers	Disbursements without business, nonprofit, and government customers
63 Services	\$176,596,343	\$171,227,142	\$98,159,867
Base under current law*	\$1,025,951,055	\$1,025,951,055	\$1,025,951,055
Total	\$1,202,547,398	\$1,197,178,197	\$1,124,110,922
Percent of disbursement retained	101%	101%	95%

\*Does not exclude any customer types not already excluded in current law

Currently, combined sales tax rates on general merchandise range from 7 percent in most of Kane, Lake, McHenry, and Will counties to 10 percent in a handful of municipalities in Cook County.<sup>22</sup> See Appendix C for a map illustrating combined sales tax rates in the region. With no corresponding change in RTA,

<sup>21</sup> This assumes that the State would continue to receive 80% of the revenues, local governments would continue to receive 20% of the revenues, and the rate on qualifying food, drugs, and medical supplies would remain 1%.

<sup>22</sup> Combined sales tax rates include the 6.25% state rate as well as any applicable RTA sales tax, county or municipal home rule sales taxes, and county or municipal non-home rule sales taxes.



home rule, and non-home rule sales taxes, a reduction of the state rate from 6.25% to 5.25% would result in a sales tax rate between 6% and 9% in most of the region. The expansion may also allow municipalities to lower home rule and non-home rule sales tax rates, as well as property tax rates.

### **Policy Implications**

The sales tax base in Illinois covers tangible goods, but only a few services, which make up a larger and growing portion of the economy. Expanding the sales tax base to include some types of industries in the service sector would allow lower sales tax rates without reducing overall revenue. In addition, broadening the base would also enhance revenue stability and reduce the economically distortive nature of the current sales tax.

### **Methodology**

Data on businesses in the CMAP region was obtained from Dun and Bradstreet Market Insight in October 2010. Non-business entities, such as government agencies, were removed from businesses with service industry North American Industry Classification System (NAICS) codes. Businesses addresses were geocoded in order to determine which municipality or unincorporated area each business was located.

When businesses were missing sales revenue data, the number of employees at that business was multiplied by the average sales revenue per employee for the business' NAICS code. Businesses with no employee or sales revenue data were considered to have no sales revenue.

To calculate taxable sales, resales of merchandise were excluded from revenue estimates using product line data from the 2007 Economic Census data. For the printing and mining industries, receipt data without resales from the 2007 Economic Census was used and for the construction industry, value added data from the 2007 Economic Census was used. Revenues estimates by customer type were calculated using customer class data from the 2002 Economic Census.

## Appendix A: Estimates of Sales Tax Disbursements to the CMAP Region, by Service Industry

### Services Included in Estimate for 63 Services

NAICS Code	Description	Total Taxable Sales Revenue	Disbursements with All Customers	Sales Revenue without Government Customers	Disbursements without Government Customers	Sales Revenue without Business, Nonprofit, and Government Customers	Disbursements without Business, Nonprofit, and Government Customers
<b>Consumer Services</b>							
7111	Performing Arts Companies	\$136,607,596	\$1,707,595	\$136,607,596	\$1,707,595	\$136,607,596	\$1,707,595
7112	Spectator Sports	\$168,064,100	\$2,100,801	\$168,064,100	\$2,100,801	\$168,064,100	\$2,100,801
512131	Motion Picture Theaters (except Drive-Ins)	\$52,929,246	\$661,616	\$52,929,246	\$661,616	\$52,929,246	\$661,616
711510	Independent Artists, Writers, and Performers	\$108,524,191	\$1,356,552	\$108,524,191	\$1,356,552	\$108,524,191	\$1,356,552
713110	Amusement and Theme Parks	\$48,288,467	\$603,606	\$48,288,467	\$603,606	\$48,288,467	\$603,606
713120	Amusement Arcades	\$19,616,673	\$245,208	\$19,616,673	\$245,208	\$19,616,673	\$245,208
713910	Golf Courses and Country Clubs	\$143,111,920	\$1,788,899	\$143,111,920	\$1,788,899	\$143,111,920	\$1,788,899
713930	Marinas	\$19,340,207	\$241,753	\$19,340,207	\$241,753	\$19,340,207	\$241,753
713950	Bowling Centers	\$67,406,231	\$842,578	\$67,406,231	\$842,578	\$67,406,231	\$842,578
713990	All Other Amusement and Recreation Industries	\$96,509,213	\$1,206,365	\$96,509,213	\$1,206,365	\$96,509,213	\$1,206,365
812111	Barber Shops	\$29,774,832	\$372,185	\$29,774,832	\$372,185	\$29,774,832	\$372,185
812112	Beauty Salons	\$384,600,686	\$4,807,509	\$384,600,686	\$4,807,509	\$384,600,686	\$4,807,509
812191	Diet and Weight Reducing Centers	\$14,215,459	\$177,693	\$14,215,459	\$177,693	\$14,215,459	\$177,693
812199	Other Personal Care Services	\$75,628,530	\$945,357	\$75,628,530	\$945,357	\$75,628,530	\$945,357
812310	Coin-Operated Laundries and Drycleaners	\$39,678,394	\$495,980	\$39,678,394	\$495,980	\$39,678,394	\$495,980
812320	Drycleaning and Laundry Services (except Coin-Operated)	\$158,179,058	\$1,977,238	\$158,179,058	\$1,977,238	\$158,179,058	\$1,977,238
812910	Pet Care (except Veterinary) Services	\$35,267,406	\$440,843	\$35,267,406	\$440,843	\$35,267,406	\$440,843
812990	All Other Personal Services	\$163,345,196	\$2,041,815	\$163,345,196	\$2,041,815	\$163,345,196	\$2,041,815
48711/ 48721/ 48799	Scenic and Sightseeing Transportation	\$17,036,429	\$212,955	\$17,036,429	\$212,955	\$17,036,429	\$212,955
<b>Consumer/Business Services</b>							
4851	Urban Transit Systems	\$88,994,598	\$1,112,432	\$88,994,598	\$1,112,432	\$88,994,598	\$1,112,432

<b>NAICS Code</b>	<b>Description</b>	<b>Total Taxable Sales Revenue</b>	<b>Disbursements with All Customers</b>	<b>Sales Revenue without Government Customers</b>	<b>Disbursements without Government Customers</b>	<b>Sales Revenue without Business, Nonprofit, and Government Customers</b>	<b>Disbursements without Business, Nonprofit, and Government Customers</b>
8111	Automotive Repair and Maintenance	\$1,828,889,463	\$22,861,118	\$1,620,557,697	\$20,256,971	\$1,249,199,280	\$15,614,991
8112	Electronic and Equipment Repair and Maintenance	\$542,378,637	\$6,779,733	\$513,012,024	\$6,412,650	\$52,003,221	\$650,040
8114	Personal and Household Goods Repair and Maintenance	\$318,001,123	\$3,975,014	\$311,791,179	\$3,897,390	\$237,830,548	\$2,972,882
323114	Quick Printing	\$101,735,677	\$1,271,696	\$101,735,677	\$1,271,696	\$101,735,677	\$1,271,696
481211	Nonscheduled Chartered Passenger Air Transportation	\$2,181,801	\$27,273	\$2,181,801	\$27,273	\$2,181,801	\$27,273
485210	Interurban and Rural Bus Transportation	\$16,314,133	\$203,927	\$16,314,133	\$203,927	\$16,314,133	\$203,927
485310	Taxi Service	\$51,971,977	\$649,650	\$51,971,977	\$649,650	\$51,971,977	\$649,650
485320	Limousine Service	\$121,687,533	\$1,521,094	\$121,687,533	\$1,521,094	\$121,687,533	\$1,521,094
485410	School and Employee Bus Transportation	\$193,480,831	\$2,418,510	\$193,480,831	\$2,418,510	\$193,480,831	\$2,418,510
485510	Charter Bus Industry	\$40,047,374	\$500,592	\$40,047,374	\$500,592	\$40,047,374	\$500,592
485999	All Other Transit and Ground Passenger Transportation	\$126,061,314	\$1,575,766	\$126,061,314	\$1,575,766	\$126,061,314	\$1,575,766
488410	Motor Vehicle Towing	\$97,654,285	\$1,220,679	\$97,654,285	\$1,220,679	\$97,654,285	\$1,220,679
531130	Lessors of Miniwarehouses and Self-Storage Units	\$48,640,351	\$608,004	\$48,640,351	\$608,004	\$48,640,351	\$608,004
532112	Passenger Car Leasing	\$321,307,007	\$4,016,338	\$320,021,779	\$4,000,272	\$14,137,508	\$176,719
532310	General Rental Centers	\$6,480,541	\$81,007	\$6,000,981	\$75,012	\$3,298,595	\$41,232
541410	Interior Design Services	\$283,433,895	\$3,542,924	\$279,182,387	\$3,489,780	\$165,525,395	\$2,069,067
541430	Graphic Design Services	\$421,736,941	\$5,271,712	\$408,663,096	\$5,108,289	\$21,930,321	\$274,129
541921	Photography Studios, Portrait	\$121,641,410	\$1,520,518	\$121,641,410	\$1,520,518	\$121,641,410	\$1,520,518
561510	Travel Agencies	\$2,287,103,171	\$28,588,790	\$2,271,093,449	\$28,388,668	\$1,013,186,705	\$12,664,834
561611	Investigation Services	\$67,568,454	\$844,606	\$49,122,266	\$614,028	\$6,959,551	\$86,994
561612	Security Guards and Patrol Services	\$193,776,076	\$2,422,201	\$180,793,079	\$2,259,913	\$3,875,522	\$48,444
561710	Exterminating and Pest Control Services	\$67,428,861	\$842,861	\$66,147,713	\$826,846	\$34,523,577	\$431,545
561720	Janitorial Services	\$471,749,426	\$5,896,868	\$430,235,476	\$5,377,943	\$86,801,894	\$1,085,024
561730	Landscaping Services	\$567,676,329	\$7,095,954	\$517,153,136	\$6,464,414	\$280,432,107	\$3,505,401
561740	Carpet and Upholstery Cleaning Services	\$52,810,882	\$660,136	\$52,071,530	\$650,894	\$36,809,185	\$460,115
561790	Other Services to Buildings and Dwellings	\$125,681,947	\$1,571,024	\$123,419,672	\$1,542,746	\$66,862,796	\$835,785

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NAICS Code	Description	Total Taxable Sales Revenue	Disbursements with All Customers	Sales Revenue without Government Customers	Disbursements without Government Customers	Sales Revenue without Business, Nonprofit, and Government Customers	Disbursements without Business, Nonprofit, and Government Customers
561910	Packaging and Labeling Services	\$296,300,762	\$3,703,760	\$296,300,762	\$3,703,760	\$28,444,873	\$355,561
561990	All Other Support Services	\$2,386,376,388	\$29,829,705	\$2,305,239,590	\$28,815,495	\$446,252,384	\$5,578,155
812331	Linen Supply	\$52,376,663	\$654,708	\$52,376,663	\$654,708	\$52,376,663	\$654,708
812930	Parking Lots and Garages	\$192,407,823	\$2,405,098	\$192,407,823	\$2,405,098	\$192,407,823	\$2,405,098
<b>Business Services</b>							
3231	Printing and Related Support Activities	\$1,077,145,488	\$13,464,319	\$1,077,145,488	\$13,464,319	\$1,077,145,488	\$13,464,319
7113	Promoters of Performing Arts, Sports, and Similar Events	\$115,385,447	\$1,442,318	\$115,385,447	\$1,442,318	\$115,385,447	\$1,442,318
488330	Navigational Services to Shipping	\$5,910,121	\$73,877	\$5,910,121	\$73,877	\$5,910,121	\$73,877
493110	General Warehousing and Storage	\$1,008,799,077	\$12,609,988	\$1,008,799,077	\$12,609,988	\$1,008,799,077	\$12,609,988
493120	Refrigerated Warehousing and Storage	\$58,111,233	\$726,390	\$58,111,233	\$726,390	\$58,111,233	\$726,390
493190	Other Warehousing and Storage	\$118,324,936	\$1,479,062	\$118,324,936	\$1,479,062	\$118,324,936	\$1,479,062
541820	Public Relations Agencies	\$506,778,109	\$6,334,726	\$491,067,988	\$6,138,350	\$2,533,891	\$31,674
541890	Other Services Related to Advertising	\$214,533,810	\$2,681,673	\$211,315,803	\$2,641,448	\$11,155,758	\$139,447
561421	Telephone Answering Services	\$107,600,379	\$1,345,005	\$106,201,574	\$1,327,520	\$6,025,621	\$75,320
561439	Other Business Service Centers (including Copy Shops)	\$34,472,010	\$430,900	\$33,989,402	\$424,868	\$10,065,827	\$125,823
561613	Armored Car Services	\$51,649,138	\$645,614	\$49,944,716	\$624,309	\$5,113,265	\$63,916
561920	Convention and Trade Show Organizers	\$104,936,682	\$1,311,709	\$103,992,252	\$1,299,903	\$5,561,644	\$69,521
711410	Agents and Managers for Artists, Athletes, Entertainers, and Other Public Figures	\$143,033,377	\$1,787,917	\$143,033,377	\$1,787,917	\$143,033,377	\$1,787,917
<b>Total Services Included in Estimate for 63 Services</b>		<b>\$16,818,699,315</b>	<b>\$210,233,741</b>	<b>\$16,307,346,833</b>	<b>\$203,841,835</b>	<b>\$9,348,558,749</b>	<b>\$116,856,984</b>

Services Not Included in Estimate of 63 Services

NAICS Code	Description	Total Taxable Sales Revenue	Disbursements with All Customers	Sales Revenue without Government Customers	Disbursements without Government Customers	Sales Revenue without Business, Nonprofit, and Government Customers	Disbursements without Business, Nonprofit, and Government Customers
<b>Consumer Services</b>							
2361	Residential Building Construction	\$1,592,687,424	\$19,908,593	\$1,592,687,424	\$19,908,593	\$1,592,687,424	\$19,908,593
6211	Offices of Physicians	\$6,071,898,323	\$75,898,729	\$6,071,898,323	\$75,898,729	\$6,071,898,323	\$75,898,729
531110	Lessors of Residential Buildings and Dwellings	\$1,935,544,660	\$24,194,308	\$1,935,544,660	\$24,194,308	\$1,935,544,660	\$24,194,308
541940	Veterinary Services	\$195,673,942	\$2,445,924	\$195,673,942	\$2,445,924	\$195,673,942	\$2,445,924
621210	Offices of Dentists	\$1,289,996,911	\$16,124,961	\$1,289,996,911	\$16,124,961	\$1,289,996,911	\$16,124,961
621511	Medical Laboratories	\$197,923,657	\$2,474,046	\$197,923,657	\$2,474,046	\$197,923,657	\$2,474,046
621512	Diagnostic Imaging Centers	\$15,788,452	\$197,356	\$15,788,452	\$197,356	\$15,788,452	\$197,356
623110	Nursing Care Facilities	\$713,101,304	\$8,913,766	\$713,101,304	\$8,913,766	\$713,101,304	\$8,913,766
812210	Funeral Homes and Funeral Services	\$89,949,761	\$1,124,372	\$89,949,761	\$1,124,372	\$89,949,761	\$1,124,372
<b>Consumer/Business Services</b>							
2371	Utility System Construction	\$259,443,092	\$3,243,039	\$259,443,092	\$3,243,039	\$259,443,092	\$3,243,039
2381	Foundation, Structure, and Building Exterior Contractors	\$1,684,681,201	\$21,058,515	\$1,684,681,201	\$21,058,515	\$1,684,681,201	\$21,058,515
2382	Building Equipment Contractors	\$2,586,906,339	\$32,336,329	\$2,586,906,339	\$32,336,329	\$2,586,906,339	\$32,336,329
2383	Building Finishing Contractors	\$798,108,348	\$9,976,354	\$798,108,348	\$9,976,354	\$798,108,348	\$9,976,354
2389	Other Specialty Trade Contractors	\$850,646,998	\$10,633,087	\$850,646,998	\$10,633,087	\$850,646,998	\$10,633,087
5411	Legal Services	\$4,703,118,306	\$58,788,979	\$4,703,118,306	\$58,788,979	\$4,703,118,306	\$58,788,979
488991	Packing and Crating	\$108,098,461	\$1,351,231	\$108,098,461	\$1,351,231	\$108,098,461	\$1,351,231
492110	Couriers and Express Delivery Services	\$147,638,112	\$1,845,476	\$147,638,112	\$1,845,476	\$147,638,112	\$1,845,476
492210	Local Messengers and Local Delivery	\$183,842,648	\$2,298,033	\$183,842,648	\$2,298,033	\$183,842,648	\$2,298,033
522310	Mortgage and Nonmortgage Loan Brokers	\$893,801,749	\$11,172,522	\$893,801,749	\$11,172,522	\$893,801,749	\$11,172,522
523920	Portfolio Management	\$207,871,588	\$2,598,395	\$207,871,588	\$2,598,395	\$207,871,588	\$2,598,395
523930	Investment Advice	\$1,153,283,031	\$14,416,038	\$1,153,283,031	\$14,416,038	\$1,153,283,031	\$14,416,038
531190	Lessors of Other Real Estate Property	\$164,694,102	\$2,058,676	\$164,694,102	\$2,058,676	\$164,694,102	\$2,058,676
541211	Offices of Certified Public Accountants	\$623,579,160	\$7,794,740	\$600,506,731	\$7,506,334	\$117,856,461	\$1,473,206



NAICS Code	Description	Total Taxable Sales Revenue	Disbursements with All Customers	Sales Revenue without Government Customers	Disbursements without Government Customers	Sales Revenue without Business, Nonprofit, and Government Customers	Disbursements without Business, Nonprofit, and Government Customers
541213	Tax Preparation Services	\$113,161,235	\$1,414,515	\$113,048,074	\$1,413,101	\$110,219,043	\$1,377,738
541219	Other Accounting Services	\$564,007,521	\$7,050,094	\$544,831,265	\$6,810,391	\$109,981,467	\$1,374,768
561311	Employment Placement Agencies	\$1,465,947,801	\$18,324,348	\$1,465,947,801	\$18,324,348	\$1,465,947,801	\$18,324,348
<b>Business Services</b>							
2362	Nonresidential Building Construction	\$1,986,287,248	\$24,828,591	\$1,986,287,248	\$24,828,591	\$1,986,287,248	\$24,828,591
213112	Support Activities for Oil and Gas Operations	\$17,830,987	\$222,887	\$17,830,987	\$222,887	\$17,830,987	\$222,887
237210	Land Subdivision	\$928,090,090	\$11,601,126	\$928,090,090	\$11,601,126	\$928,090,090	\$11,601,126
237310	Highway, Street, and Bridge Construction	\$562,040,363	\$7,025,505	\$562,040,363	\$7,025,505	\$562,040,363	\$7,025,505
237990	Other Heavy and Civil Engineering Construction	\$80,235,446	\$1,002,943	\$80,235,446	\$1,002,943	\$80,235,446	\$1,002,943
488999	All Other Support Activities for Transportation	\$204,455,928	\$2,555,699	\$204,455,928	\$2,555,699	\$204,455,928	\$2,555,699
493130	Farm Product Warehousing and Storage	\$1,464,000	\$18,300	\$1,464,000	\$18,300	\$1,464,000	\$18,300
518210	Data Processing, Hosting, and Related Services	\$529,400,507	\$6,617,506	\$529,400,507	\$6,617,506	\$529,400,507	\$6,617,506
531120	Lessors of Nonresidential Buildings	\$861,424,561	\$10,767,807	\$861,424,561	\$10,767,807	\$861,424,561	\$10,767,807
541214	Payroll Services	\$172,228,854	\$2,152,861	\$172,228,854	\$2,152,861	\$12,056,020	\$150,700
541310	Architectural Services	\$930,397,193	\$11,629,965	\$751,760,932	\$9,397,012	\$100,482,897	\$1,256,036
541330	Engineering Services	\$2,055,655,655	\$25,695,696	\$1,360,844,044	\$17,010,551	\$37,001,802	\$462,523
541370	Surveying and Mapping (except Geophysical) Services	\$94,139,333	\$1,176,742	\$79,641,876	\$995,523	\$25,323,481	\$316,544
541380	Testing Laboratories	\$261,338,385	\$3,266,730	\$248,010,128	\$3,100,127	\$3,397,399	\$42,467
541511	Custom Computer Programming Services	\$2,066,904,210	\$25,836,303	\$1,957,358,287	\$24,466,979	\$55,806,414	\$697,580
541613	Marketing Consulting Services	\$1,011,331,472	\$12,641,643	\$963,798,893	\$12,047,486	\$18,203,966	\$227,550
541810	Advertising Agencies	\$2,691,482,317	\$33,643,529	\$2,610,737,847	\$32,634,223	\$32,297,788	\$403,722
541830	Media Buying Agencies	\$109,730,861	\$1,371,636	\$109,730,861	\$1,371,636	\$36,979,300	\$462,241
541840	Media Representatives	\$753,892,037	\$9,423,650	\$734,290,844	\$9,178,636	\$77,650,880	\$970,636
541850	Display Advertising	\$91,876,224	\$1,148,453	\$88,844,308	\$1,110,554	\$12,770,795	\$159,635
541860	Direct Mail Advertising	\$486,208,875	\$6,077,611	\$482,319,204	\$6,028,990	\$15,558,684	\$194,484
541870	Advertising Material Distribution Services	\$35,935,912	\$449,199	\$35,899,976	\$448,750	\$9,738,632	\$121,733

NAICS Code	Description	Total Taxable Sales Revenue	Disbursements with All Customers	Sales Revenue without Government Customers	Disbursements without Government Customers	Sales Revenue without Business, Nonprofit, and Government Customers	Disbursements without Business, Nonprofit, and Government Customers
561312	Executive Search Services	\$202,413,321	\$2,530,167	\$202,413,321	\$2,530,167	\$202,413,321	\$2,530,167
561320	Temporary Help Services	\$2,881,086,042	\$36,013,576	\$2,881,086,042	\$36,013,576	\$2,881,086,042	\$36,013,576
561410	Document Preparation Services	\$29,482,276	\$368,528	\$28,951,595	\$361,895	\$1,356,185	\$16,952
561422	Telemarketing Bureaus and Other Contact Centers	\$137,956,818	\$1,724,460	\$132,852,415	\$1,660,655	\$14,071,595	\$175,895
561440	Collection Agencies	\$383,719,699	\$4,796,496	\$346,115,168	\$4,326,440	\$32,232,455	\$402,906
561450	Credit Bureaus	\$148,803,198	\$1,860,040	\$147,017,560	\$1,837,719	\$3,571,277	\$44,641
561492	Court Reporting and Stenotype Services	\$45,301,398	\$566,267	\$42,538,012	\$531,725	\$13,998,132	\$174,977
	<b>Total Services Not Included in Estimate of 63 Services</b>	<b>\$48,372,507,334</b>	<b>\$604,656,342</b>	<b>\$47,116,701,577</b>	<b>\$588,958,770</b>	<b>\$36,405,929,374</b>	<b>\$455,074,117</b>
	<b>Grand Total</b>	<b>\$65,191,206,649</b>	<b>\$814,890,083</b>	<b>\$63,424,048,410</b>	<b>\$792,800,605</b>	<b>\$45,754,488,123</b>	<b>\$571,931,102</b>

**Appendix B: Number of Services Taxed by Category and State, 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

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	Utilities	Personal Services	Business Services	Computer Services	Admissions & Amusements	Professional Services	Fabrication, Repair & Installation	Other Services	Total
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
<b>Total Number of Surveyed Services in Category</b>	<b>16</b>	<b>20</b>	<b>34</b>	<b>8</b>	<b>15</b>	<b>9</b>	<b>19</b>	<b>47</b>	<b>168</b>

\*State did not respond to 2007 survey, 2004 data reported

Source: Federation of Tax Administrators 2007 Services Taxation Survey, <http://www.taxadmin.org/fta/pub/services/services.html>

Appendix C

