



AMERICAN COUNCIL OF ENGINEERING COMPANIES

Professional Services Taxes: Overview

ISSUE

Budget challenges in the states have led many governors and state legislators to consider the imposition of new taxes on professional services, including architectural and engineering services. Experiences in states that have approved and later repealed a professional services tax demonstrate that taxing professional services is very difficult for the government to administer and fails to generate anticipated revenue. In addition, a professional services tax places a large administrative burden on the A/E firms that design America's critical infrastructure.

KEY POINTS

- If the tax were imposed on businesses located within the state, it would put in-state firms at a competitive disadvantage to out-of-state firms that would be able to offer the same services without having to collect the tax. Firms that are able to move would likely relocate to other states, taking well-paid jobs with them.
- Small firms would be hit particularly hard by this type of tax and the attendant regulations and filing requirements. It could drive them out of business, which would harm the local economy.
- Many states require sales taxes to be reported and paid to the government at the time the business invoices the client. However, engineering firms typically wait at least 120 days to be paid by their clients. This gap would create significant cash flow problems for engineering firms.
- Professional services taxes have historically failed to generate expected revenue, particularly because many clients of A/E firms are governmental entities and do not pay sales taxes.
- There are significant challenges associated with determining the point of sale for design services. The point of sale could be where the design firm is located, where the client is located, or where the engineering project is located. Each of these possibilities could suggest a different result with respect to whether a professional services tax applies.
- These taxes create significant administrative burdens for state governments at a time when they are already stressed, and require additional bureaucracy in order to implement and collect the tax.
- Many states allow cities, counties, or other local jurisdictions to add a local option sales tax in addition to the statewide tax, which would add to the disparity between in-state firms that would have to pay the tax and out-of-state firms that would not.
- Firms would also have to bear the administrative costs of extensive reporting requirements at both the state and local levels in order to be in compliance with a professional services tax.

ACEC POSITION

ACEC opposes levying sales taxes on firms that provide professional engineering services to their clients.