



AMERICAN COUNCIL OF ENGINEERING COMPANIES

Professional Services Taxes: Revenues

ISSUE

When considering the imposition of a professional services tax, states typically estimate the revenues they expect to gain from such a tax. However, these revenue estimates usually overestimate the taxes that would be paid on engineering services.

KEY POINTS

- State sales tax laws typically exempt governmental entities, along with educational, charitable, and religious entities, from paying the tax.
- Government sector clients generally purchase at least 50 percent of all A/E services, and those purchases would not be taxable in most states.
- In a 2007 study prepared during consideration of a professional services tax and other tax measures by the Maryland legislature, Ernst & Young noted that Maryland's revenue estimate of the taxes it would receive from A/E services was overstated because it did not account for purchases by governmental entities that would be excluded from the tax.
- Engineering firms that are acting as the prime contractor typically subcontract various pieces of the contract to other A/E firms. States often provide exemptions from the sales tax for goods that are used without substantial change, commonly known as a sale for resale exemption. Assuming the sale for resale exemption remains in place for A/E services, states may not be accurately accounting for subcontracted services, inflating the estimate of how much revenue the tax would produce. If the sale for resale exemption does not remain, A/E services could be double taxed, adding further costs to engineering projects.

ACEC POSITION

ACEC is concerned that states are relying on inflated revenue estimates when considering the imposition of a professional services tax on engineering and opposes levying sales taxes on firms that provide professional engineering services to their clients.