Sales Taxation of Services:  
A Taxonomy and Ranking of the States

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presented by

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Introduction:  
The United States economy is becoming more service oriented. Looking only at personal consumption data, services were 40.5 percent of total consumption expenditures in 1965 (durables, nondurables are the other two components of personal consumption expenditures). By the first quarter of 1990, 54.4 cents of every dollar of personal consumption were spent on services. By 2005, services will take 64 percent of the total U.S. consumers spending. The increasing dominance of services is even more apparent when looking at employment figures.

![Services as % of Total Consumption Exp.](image)

<table>
<thead>
<tr>
<th>TABLE 1: Services as % of Total Consumption Expenditures</th>
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<tr>
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<tr>
<td>77</td>
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<tr>
<td>30</td>
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<tr>
<td>39%</td>
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</table>

This shift has caused interesting repercussions for sales tax collections, as states with narrow, tangible

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* The author is grateful for the support of the Federation of Tax Administrators and Harley Duncan, its executive director, whose research associate program provided the opportunity to conduct this investigation. I am further indebted to Gail D. Reese, Secretary, and the New Mexico Taxation and Revenue Department which provided the major financial support for the three month duration of the associate participation. The opinions expressed in this paper are those of the author and do not necessarily represent the position of either the New Mexico Taxation and Revenue Department or the Federation of Tax Administrators. Any errors in the paper are those of the author alone.


2 Quarter 1 only.
property sales tax bases report significant declines in sales tax revenues compared to personal incomes. States that do not tax the consumption of services may find increasing difficulty raising the revenue necessary to provide the level of government services demanded by the electorate. Of course, state governments can fund the cost of government through other taxes and fees, but the sales tax remains the most productive tax for state governments. It is not surprising, considering the reliance on the sales tax and the shift to services orientation in the economy, that a number of states have been looking recently at sales tax base broadening as well as rate increases. While rate increases are familiar and somewhat popular, base broadening may be the preferable method of increasing the yield from the sales tax.

In the second half of the decade of the 80's, four states (Connecticut, Minnesota, Texas and Florida) significantly extended the reach of their sales tax to include some or many services. Florida, one of these four, repealed the base broadening six months after initial enactment, in a highly publicized reversal of policy. Since 1985, fourteen other states have debated on the issue with no impositions of tax concluding the debate. The most recent (May 1990) was a proposal passed by the Massachusetts Senate that drastically broadens the tax on selected services. Observers report good chances of ultimate passage.

**Rational Basis for Classifying Breadth of Service Taxation:**

There is a great deal of posturing and some confusion in the debate over taxation of services. In this debate, the broad concept "service" seems to be equated with the most controversial area of service taxation - the taxation of advertising and professional services, particularly legal and accounting services. However, within the broad concept of service are areas that are remarkably not controversial. For instance, 46 states and the District of Columbia impose sales taxes on tangible personal property. If one includes local option sales tax type levies, 50 states or subdivisions and the District of Columbia impose taxes on transient hotel and motel accommodations. In this instance, there is more agreement among the states on taxation of this particular service, than there is generally on the taxation of retail sales of tangible property. While transient lodging is the most extensively taxed service, repairs to tangible property, short term rental of automobiles and utility services are also taxed extensively by the states.

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3 John Mikesell, *Reforming and Restructuring State General Sales Taxes: What Now?*; paper prepared for the Association for Public Policy Analysis and Management (October 1988). Table 2 computes that the sales tax contributed 36.1% of state tax revenue in fiscal 1987. This is an increase from 32% in 1970 and 34.4% in 1980. The sales tax is the largest single source of tax revenue in 31 states.


6 For a list of proposals and enactments, see Laird Graezer, *Sales Taxation of Services; Revenue Administration, Federation of Tax Administrators, Proceedings of the Annual Convention,* (1990).

7 In addition, Alaska permits cities and boroughs to impose local option taxes on goods and services. This effectively increases the comparative level of states taxing goods to 47 states and D.C.

8 45 states and the District of Columbia impose a state sales tax. 27 states impose a tax on transient accommodations under the sales tax statute. Six more tax hotel rooms under companion legislation. Two states impose add-on lodging taxes in addition to the state sales tax. Three states permit local jurisdictions to impose lodging taxes in addition to the state imposed sales tax. One state imposes an add-on lodging tax and permits local jurisdictions an additional add-on tax. Seven permit local governments, but not the state, to tax hotel lodging. Of the five states without general sales tax (Oregon, New Hampshire, Montana, Alaska and Delaware) Delaware, New Hampshire and Montana impose a state wide transient accommodations tax; Alaska permits 96 municipalities to tax transient accommodations; Oregon permits local municipalities and counties to tax transient accommodations.
The broad concept of service includes rental of real or tangible property, utility services, admissions and amusements, cable TV, parking, repairs to real and tangible property, installation of tangible property as well as personal services (e.g., barbers and beauty shops), business services (including advertising) and professional services. One of the confusing aspects of the taxation of services, unlike the taxation of personal property, is the number and kind of special purpose tax statutes used by the states to impose tax on services. In addition to, or in lieu of, the general tangible property retail sales tax, states impose rental taxes, admission and amusement taxes, utility taxes, telecommunication taxes, meals and lodging taxes, transient accommodations taxes, motor vehicle excise taxes, mechanical amusement taxes, and parking lot and vehicle storage taxes as well as gross receipts taxes, business and occupation taxes and other "business" taxes.

The first necessity to making order of the chaos, is to classify services and prepare a systematic method of comparing the states on the breadth of service taxation. The purpose of classifying is to understand and make valid distinctions. There are a number of ways to make these distinctions ranging across political and economic bases. One classification schema emphasizes the relationship of the taxable base to the National Income and Product Accounts. One other classification schema relates sales tax collections to the sales tax base and thence to the proportion of state gross product taxed by the state sales tax.

An attractive dimension on which to analyze and classify the state sales taxes relates to the degree of connection with tangible property. In some jurisdictions, for instance, electricity has been held to be tangible. In others, photofinishing is a taxable service since the product of the service is a tangible photographic print. These distinctions might lead to classification based on the following prototype. The hierarchy approximately measures the relationship of the service to real or tangible property, ranging from virtual identity to pure service with no tangible property delivered with the service performed.

Services associated with real property (e.g. swimming pool cleaning, janitorial services, real estate sales commissions);
Services associated with or imposed on tangible property (e.g. installation, repairs, fabrication, garment alteration, laundry and dry cleaning);
Services delivered with tangible property (e.g. photofinishing, custom computer programming);
Services taxed as public utilities (including inter and intrastate telephone);
Admissions and amusements (including cable TV)
Transient lodging (and restaurant meals);
Transportation services;
Personal services (barbers and beauticians);
Business services; and
Professional services

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Any distinctions based on this type of classification, however, come from an analysis of taxable transactions. What transactions or sales are taxed in a particular jurisdiction? For this simple reason, the remaining discussion in this paper will focus on types of sales transactions.

For the purpose of the taxonomy described in this paper, a sales tax imposed on services is:

1. imposed on a transaction basis as opposed to a tax measured by annual aggregations of income or sales; and
2. measured by sale price of the goods or service transaction; and
3. imposed on any transaction where a service, as defined by SIC code nomenclature\footnote{11}, is delivered in conjunction with or entirely separate from tangible property taxable under sales tax statutes.

This definition then embraces all the special taxes on services enumerated above, and includes services taxed under business and occupation or gross receipts tax statutes. This latter inclusion is counter to the preference of Due and Mikesell.\footnote{12} These authors make a distinction between, for instance, the Hawaii or New Mexico gross receipts taxes and the Washington or West Virginia business and occupation taxes or the Indiana gross receipts tax. The rationale for excluding the Washington, West Virginia, and Indiana taxes while including Hawaii or New Mexico is the latter states tax services and tangible property equally, while the former taxes on services accompany a conventional sales tax on tangibles. Further, the New Mexico and Hawaii taxes have important general sales tax features like compensating use taxes, resale exemptions and the like. Since the use tax and resale exemptions are largely irrelevant to the discussion of service taxation, the distinction drawn by Due & Mikesell will not be followed in this discussion.

\textit{Survey of State Service Taxation:}

There have been at least four relatively recent surveys of state sales taxes.\footnote{13} The Mikesell study is the most consistent and accurate. Most of this work surveyed a wide range of topics within the general topic of sales and use taxation. Because of the breadth of these surveys, the detailed distinctions needed to accurately divide the states into classes and rank order relative to breadth of service taxation are not available. Conversely, Mikesell surveyed only service taxation and is quite useful. However, the Mikesell study was limited primarily to sales tax statutes. In particular, the Mikesell work did not address admissions and amusement taxes, taxation of computer software or services taxed under business and occupation taxes. Further, considering the rapidity with which statutes in the various states have been

\footnote{11} Appendix B of this paper contains a list of SIC codes relating to service. These SIC codes are extracted from the volume \textit{Standard Industrial Classification Manual}; Executive Office of the President, Office of Management and Budget (1987), available from National Technical Information Service.


\footnote{14} Citizens for Tax Justice, \textit{Nickles and Dimes} (March 1988)


\footnote{16} Mississippi State Tax Commission, \textit{Survey of Sales and Use Taxes}, (January 1990)
changing it seems prudent to survey the state tax departments to obtain the most consistent and accurate information. A questionnaire, composed of a maximum of 181 elements was prepared. With a priori knowledge of the approximate breadth of taxation of services obtained by compiling the available survey data, most states were sent a survey instrument with approximately 70 elements, a subset of the total. The rule is that if the transaction is primarily taxable except for some instances then it is counted as taxable. The full survey instrument is included as Appendix A.

49 states and the District of Columbia\(^\text{17}\) have responded to the survey with helpful additions and corrections. The complete survey data is available under separate cover as \textit{1990 FTA Survey of State and Local Sales Taxes on Services}.\(^\text{18}\)

**Taxonomy of State Sales Taxation on Services:**

For the purpose of descriptive analysis, the six level scheme first proposed and implemented by John Due is satisfactory. This classification scheme has also been used in publications by the Advisory Commission on Intergovernmental Affairs\(^\text{19}\). This schema focuses and ranks the states based on level of taxation of services \textit{other than} utilities, admissions and transient accommodations. Although this coarse rating system is adequate for most purposes, many state officials have expressed a desire for and a comfort with the concept of sequential ranking. If the rules of the ranking system are known, states can use the relative ranking as a "report card" of their sales tax structure. As legislation is proposed, the state analysts can report what the proposal might do in terms of relative ranking with other states.

<table>
<thead>
<tr>
<th>TABLE 2: John Due Rankings</th>
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<tbody>
<tr>
<td>0- No state sales tax;</td>
</tr>
<tr>
<td>1- General taxation of most services (includes most professional and personal services);</td>
</tr>
<tr>
<td>2- Broad taxation of services (may include investment counseling, bank service charges; barber and beauty shops; carpentry; laundry and cleaning; photography; rentals; interior decorating; printing; packing; parking; and bookkeeping and collection services);</td>
</tr>
<tr>
<td>3- Substantial taxation of services (must include taxation of repair services; may include bookkeeping and collection services; laundry and dry cleaning; cable TV; parking and landscaping);</td>
</tr>
<tr>
<td>4- Narrow taxation of services (may include taxation of advertising; selected business services; and laundry and dry cleaning); and</td>
</tr>
<tr>
<td>5- No (or little) taxation of services.</td>
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</table>

\(^{17}\) The only state not submitting a reply is Oregon. Oregon does not impose a state sales tax, however certain public utilities are taxed under a gross receipts tax and lodging is taxed by option at the local level.

\(^{18}\) The complete survey (with footnotes and comments) is available in PC spreadsheet form. Lotus 123 and Excel versions are available by request of The Federation of Tax Administrators, 444 North Capitol, NW, Washington DC, 20001.

\(^{19}\) See for example, Advisory Commission on Intergovernmental Relations, \textit{Local Revenue Diversification: Local Sales Taxes, SR-12, 9/89} as well as the annual publication, \textit{Significant Features of Fiscal Federalism}. 

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The critical test within this schema is labor charges on repairs. Any state that taxes the labor on repairs to tangible property is accorded a ranking of 3, 2 or 1. States which do not generally tax repair labor are ranked 4 or 5 (or 0). The five states with no state sales tax rank 0. The three states with general taxation of services are Hawaii, New Mexico and South Dakota. These states rank 1. States with broad taxation of services are Iowa, Washington, and West Virginia. These states rank 2. States ranking 4 with narrow taxation of services are Arizona, Connecticut, Minnesota, North and South Carolina. The remaining states are ranked 3 or 5, as previously described based on taxation of repair labor.

<table>
<thead>
<tr>
<th>General Taxation of Services</th>
<th>Broad (2)</th>
<th>Substantial (3)</th>
<th>Narrow (4)</th>
<th>No Additional Services (5)</th>
<th>No State Sales Taxation of Services (0)</th>
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<tbody>
<tr>
<td>Hawaii</td>
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<td>New Mexico</td>
<td>Iowa</td>
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<td>South Dakota</td>
<td>West Virginia</td>
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<td>Arkansas</td>
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<td>District of Columbia</td>
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<td>Utah</td>
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<td>Wisconsin</td>
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<td>Wyoming</td>
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<td>Arizona</td>
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<td>Connecticut</td>
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<td>Minnesota</td>
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<td>North Carolina</td>
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<td>South Carolina</td>
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<td>Alabama</td>
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<td>North Dakota</td>
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<td>Oklahoma</td>
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<td>Rhode Island</td>
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<td>Vermont</td>
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<td>Virginia</td>
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</tbody>
</table>

One problem with this six level scheme, is that states tend to add services to the list a few at a time. A significant addition of taxed services in a state ranking 3 might not increase the ranking to 2 but might surpass other states ranked 3. From the work of ACIR and the U.S. Census, state officials are used to comparisons and rankings among states. State officials frequently focus on small differences and trends in these rankings. In addition, most public finance articles, journals and books emphasize that states should not be too much different from their neighbors in tax rates or structure. For the purpose of ranking by

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20 Delaware has a business and occupations tax with high floor levels, but broad coverage of services. Alaska has no state sales tax, but permits all municipalities to impose sales taxes on goods and services. These taxes are generally limited to a maximum imposition per transaction. Anchorage and Fairbanks Northstar Boroughs only impose 8% taxes on transient lodging, however. Montana, New Hampshire and Oregon tax specific services - primarily utilities and transient lodging -- under separate statutes.

21 See for example, Gold, Steven D. and Corina L. Eckl, Appendix: A Checklist of Characteristics of a Good State Revenue System; The
state a somewhat finer distinction must be drawn than the six level scale of Professor Due. The obvious approach is to identify a list of possibly taxed services. If a state taxes the listed service under any sales tax-like statute, one point is awarded. If the service is exempt from taxation, then zero points are awarded. Based on the total number of points assigned, the states can be ranked. Also, a taxonomy that relies on taxation of all services, without the requisite of taxing repair labor may be more appropriate.

A proposed short list of appropriate services follows in Table 4. This list is composed of (arbitrarily) 25 items selected from the types of services categorized on page 3: services associated with real property, services associated with or imposed on tangible property, services delivered with tangible property, services taxed as public utilities, admissions and amusements, transient lodging, transportation services personal services, business services and professional service.

<table>
<thead>
<tr>
<th>TABLE 4: Alternative Taxonomy -- Possible Classification List</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting services</td>
</tr>
<tr>
<td>Admission to circuses or fairs</td>
</tr>
<tr>
<td>Armored car services</td>
</tr>
<tr>
<td>Auto washing</td>
</tr>
<tr>
<td>Auto wrecking and towing</td>
</tr>
<tr>
<td>Barber shops</td>
</tr>
<tr>
<td>Private buses and taxis</td>
</tr>
<tr>
<td>Cable TV</td>
</tr>
<tr>
<td>Carpentry</td>
</tr>
</tbody>
</table>

Based on this classification the states are ranked as follows:

<table>
<thead>
<tr>
<th>TABLE 5: Ranking of States Based on Short List of Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>1</td>
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<tr>
<td>1</td>
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<tr>
<td>1</td>
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<tr>
<td>4</td>
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<td>5</td>
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<td>6</td>
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<td>14</td>
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<tr>
<td>16</td>
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<tr>
<td>17</td>
</tr>
</tbody>
</table>

There is an approximate correspondence between this classification schema and that of Due and Mikesell:

<table>
<thead>
<tr>
<th>Points</th>
<th>Due Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 to 25</td>
<td>1</td>
</tr>
<tr>
<td>19 to 22</td>
<td>2</td>
</tr>
<tr>
<td>8 to 18</td>
<td>3</td>
</tr>
<tr>
<td>--</td>
<td>4</td>
</tr>
<tr>
<td>1 to 7</td>
<td>5</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**TABLE 7: Exceptions to Equivalence**

<table>
<thead>
<tr>
<th>Equivalent Proposed Ranking</th>
<th>Due Ranking</th>
<th>State(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Washington</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>Delaware</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>Arizona, Connecticut, Minnesota</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>Nebraska, Oklahoma</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>North Carolina, South Carolina</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>Montana, New Hampshire, Oregon</td>
</tr>
</tbody>
</table>

The exceptions are Arizona, Connecticut, Minnesota, Nebraska and Oklahoma which are in the 3 grouping with the proposed schema and 4, 4, 5 and 5 respectively in the Due classification. Similarly, North and South Carolina rank equivalently 5 with the proposed scheme and 4 in the Due rankings. Washington ranks equivalently 1 where the Due schema ranks the state 2. Finally, Montana, New Hampshire and Oregon are equivalent to a 5 ranking with the proposal and 0 in the Due rankings. The dramatic increase in the Delaware rankings relate to inclusion of the service taxation aspect of the Delaware business and occupation gross receipts tax. The other minor differences relate primarily to a lower relative importance of repair labor in the classification hierarchy. The upgrade of Montana, New Hampshire and Oregon relate to the inclusion of utility services in the classification.

**Classification Under Extended List:**

The short list above does not provide a very robust classification method. Rankings can change significantly for insignificant, but selected changes in taxed services. A longer list of selected services provides a more robust classification weight. The list from the questionnaire discussed earlier totals 172 items enumerating communication, transportation, repair, fabrication, installation, personal services, business services, professional services and information services. Assigning points to the items in this list provides a feasible and robust targeted list. One point is assigned for each taxable item in the list. The list is then ordered and the states ranked. On this schema the rankings (and points) are exhibited in Table 8.

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22 The classification in the survey loosely entitled "rentals" seems to be subject to variable interpretation. Many states treat rentals similar to a sale of tangible property. Thus, any interest or markup over the purchase price of the property contained in the rental charge is not taxed. In other states, the interest and markup is taxed. Because of the difficulty in interpretation of what a "taxable" answer means, these rental responses were not included in the count. Limousine service and charter flight service, have been included in the count. Similarly, repair materials (item 153) has not been included in the count.
### TABLE 8: State Rankings -- Long List

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Points</th>
<th>Rank</th>
<th>State</th>
<th>Points</th>
<th>Rank</th>
<th>State</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Delaware</td>
<td>158</td>
<td>18</td>
<td>Florida</td>
<td>53</td>
<td>35</td>
<td>Kentucky</td>
<td>23</td>
</tr>
<tr>
<td>2</td>
<td>Hawaii</td>
<td>154</td>
<td>19</td>
<td>District of Columbia</td>
<td>52</td>
<td>35</td>
<td>Maine</td>
<td>23</td>
</tr>
<tr>
<td>2</td>
<td>New Mexico</td>
<td>154</td>
<td>20</td>
<td>Louisiana</td>
<td>48</td>
<td>37</td>
<td>North Dakota</td>
<td>19</td>
</tr>
<tr>
<td>4</td>
<td>Washington</td>
<td>151</td>
<td>21</td>
<td>Arkansas</td>
<td>47</td>
<td>37</td>
<td>Vermont</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>South Dakota</td>
<td>131</td>
<td>21</td>
<td>Utah</td>
<td>47</td>
<td>39</td>
<td>Michigan</td>
<td>18</td>
</tr>
<tr>
<td>6</td>
<td>West Virginia</td>
<td>111</td>
<td>23</td>
<td>Nebraska</td>
<td>40</td>
<td>40</td>
<td>Indiana</td>
<td>17</td>
</tr>
<tr>
<td>7</td>
<td>Iowa</td>
<td>83</td>
<td>24</td>
<td>Pennsylvania</td>
<td>37</td>
<td>41</td>
<td>South Carolina</td>
<td>16</td>
</tr>
<tr>
<td>8</td>
<td>Connecticut</td>
<td>76</td>
<td>25</td>
<td>New Jersey</td>
<td>35</td>
<td>42</td>
<td>California</td>
<td>15</td>
</tr>
<tr>
<td>8</td>
<td>Texas</td>
<td>76</td>
<td>26</td>
<td>Ohio</td>
<td>34</td>
<td>42</td>
<td>Illinois</td>
<td>15</td>
</tr>
<tr>
<td>10</td>
<td>Mississippi</td>
<td>67</td>
<td>27</td>
<td>Idaho</td>
<td>33</td>
<td>42</td>
<td>Oregon</td>
<td>15</td>
</tr>
<tr>
<td>11</td>
<td>Tennessee</td>
<td>66</td>
<td>27</td>
<td>Oklahoma</td>
<td>33</td>
<td>42</td>
<td>Virginia</td>
<td>15</td>
</tr>
<tr>
<td>11</td>
<td>Wisconsin</td>
<td>66</td>
<td>29</td>
<td>Alabama</td>
<td>31</td>
<td>46</td>
<td>Montana</td>
<td>14</td>
</tr>
<tr>
<td>13</td>
<td>Kansas</td>
<td>64</td>
<td>29</td>
<td>Georgia</td>
<td>31</td>
<td>47</td>
<td>Colorado</td>
<td>12</td>
</tr>
<tr>
<td>14</td>
<td>Minnesota</td>
<td>60</td>
<td>31</td>
<td>North Carolina</td>
<td>26</td>
<td>47</td>
<td>Nevada</td>
<td>12</td>
</tr>
<tr>
<td>15</td>
<td>New York</td>
<td>58</td>
<td>32</td>
<td>Maryland</td>
<td>25</td>
<td>49</td>
<td>New Hampshire</td>
<td>11</td>
</tr>
<tr>
<td>16</td>
<td>Wyoming</td>
<td>56</td>
<td>33</td>
<td>Missouri</td>
<td>24</td>
<td>50</td>
<td>Massachusetts</td>
<td>4</td>
</tr>
<tr>
<td>17</td>
<td>Arizona</td>
<td>54</td>
<td>33</td>
<td>Rhode Island</td>
<td>24</td>
<td>51</td>
<td>Alaska</td>
<td>2</td>
</tr>
</tbody>
</table>

Again, an approximate equivalence exists between the points assigned here and the six level ranking of John Due:

### TABLE 9: Classification Equivalence

<table>
<thead>
<tr>
<th>Points</th>
<th>Due Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>130 to 160</td>
<td>1</td>
</tr>
<tr>
<td>80 to 129</td>
<td>2</td>
</tr>
<tr>
<td>34 to 79</td>
<td>3</td>
</tr>
<tr>
<td>--</td>
<td>4</td>
</tr>
<tr>
<td>3 to 33</td>
<td>5</td>
</tr>
<tr>
<td>0 to 2</td>
<td>0</td>
</tr>
</tbody>
</table>

The variations from equivalence here are virtually identical as in the case of the short list of key taxed services.

### TABLE 8: Exceptions to Equivalence

<table>
<thead>
<tr>
<th>Equivalent Proposed Ranking</th>
<th>Due Ranking</th>
<th>State(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Washington</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>Delaware</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>Arizona, Connecticut, Minnesota</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>Delaware</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>Nebraska</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>North Carolina, South Carolina</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>New Hampshire, Montana, Oregon</td>
</tr>
</tbody>
</table>

These exceptions to equivalence highlight the differences between the Due classification and the proposed schema. Washington and Delaware increase in ranking because of the inclusion of business and occupation taxation of services. These are taxed designed to be imposed on businesses and to impact, presum-
ably, on business profits. However, the incidence of these taxes is ruled by essentially the same economic factors that govern the burden of sales taxes. In service taxation, resale certificates for services are much less the rule than are resale certificates in the taxation of tangible property. For the purpose of looking broadly at service taxation, there is no essential difference.

Arizona, Connecticut and Minnesota do not tax repair labor. However, each taxes a significant range of other service transactions. There is no particularly compelling reason to value repair labor any more than some other service.

New Hampshire, Oregon, Delaware, and Montana do not have a state sales tax. Delaware, as mentioned above has a business and occupations type tax on services. New Hampshire, Montana and Montana impose utility taxes and transient lodging taxes on a statewide basis. Oregon imposes a utility tax and permits local jurisdictions to impose transient lodging and meals taxes. Thus, from the standpoint of tax burden, a sales tax like tax is imposed in all these states. Even in Alaska, local jurisdictions are permitted certain levels of service taxation under sales tax like statutes and could perhaps be included in ranking schemes.

**Comparison of Long List and Short List Rankings:**

It is interesting that the exception list between either the long list or the short list of services against the Due rankings is virtually identical. It is interesting to see exactly how different the rankings on the two lists are compared against each other. There is only one major difference and 5 smaller, but significant differences between the ranks determined by the two lists.

South Carolina ranks 41st on the long list but 28th on the short list. This is a difference of 13 rank places. South Carolina is characterized by taxation only of intrastate telephone utility and cable TV among the utility and admissions group, but significant taxation of computer services. It seems to be a subtle artifact of the selection process where the discrepancy occurs. Maine, Colorado and Missouri have a difference of 7 rank places, Idaho by 6 and Indiana by 5. On average, the absolute rank difference between the two lists is 2.4 rank places.

**Summary and Conclusion:**

States considering an expansion of coverage of their sales tax have many pathways to follow. It may not be necessary to fight major political battles over taxation of business services, advertising or professional services. Taxing admissions and amusements, utilities, transportation services, transient lodging and meals away from home, rentals of tangible property, services associated with tangible property (such as installation and repair) may be feasible and may possibly yield significant revenue. States should certainly explore these conservative (and proven) paths before attempting broad or general taxation of services.

Simply because other states are currently taxing some services does not necessarily mean that such taxation is economically neutral, that equity and regressivity arguments have been adequately addressed, or that
economic development, pyramiding, interstate competition and other factors of major concern to the business community have been solved. However, within the broad classification of services, there are many niches that may be occupied by broader reaching sales tax statutes. In many instances, fairness and efficiency arguments will compel states to consider reforming their structure. In other instances, the revenue gain will overwhelm the technical or political counterarguments.

This paper details some of the considerations of breadth of taxed transactions. These considerations are expressed in terms of a method of ranking the states based on this breadth. While it is practical and feasible to make these judgements on a base or yield basis (sales taxable base per $1,000 of state gross product) the proposed scheme focuses on some relevant distinctions that do not depend on estimates of state gross product or personal income, nor do they depend on the administrative efficacy of a state taxation agency and how large the underground economy is in any jurisdiction.
Appendix A: Survey Instrument
Cover Letter

Dear Commissioner:

Within the past six months, legislation has been proposed in Kentucky and New York to broaden the coverage of the sales taxes to include some services. The mayor of Washington D.C. has similarly proposed such an extension of the sales tax. This minor flurry of activity may announce renewed interest from the states in taxing services. For many years, state tax experts have advocated and predicted this step. For many reasons, a transaction tax on the sales value of some services can be justified and makes revenue and economic sense. Of course, the first question legislators and other policy makers ask when confronted with the issue is "what other states tax these services?"

In addressing this issue and the question, the FTA has found the existing compilations of "who taxes what services" are deficient. The enclosed survey summarizes the results for your state of a number of surveys: John Mikesell (1990), Mikesell and Due (1983), Mississippi Sales Tax Survey (1990), and the South Dakota 1984 work "Survey of Sales and Use Taxation in the United States". We need your help in verifying the completeness and accuracy of this information. Would you please assign this task to an analyst?

The survey is particularly difficult since many states tax services under different statutes than the tax on retail (tangible property) sales. States have admission taxes, rental taxes, public utility taxes, meals and lodging taxes in addition to their sales, use or gross receipts taxes. Other states tax services under their business and occupation tax statutes. Thus limiting the scope of this work, yet including effectively all similar taxes on broadly defined services, has caused problems. Please include in your answers to the survey, all taxes imposed on broadly defined services where the tax is measured by the total transaction price or the total gross sales or receipts of a business. Thus license fees or taxes measured by gross sales and paid once a year would be included. Include taxes imposed by either state or local jurisdictions.

The survey is particularly interested in making distinctions among the following classes of services:
- Services associated with real or tangible property (e.g. installation charges, swimming pool cleaning, janitorial services);
- Services imposed on tangible property (e.g. repairs, fabrication, laundry and dry cleaning);
- Services delivered with tangible property (e.g. photofinishing, custom computer programming, printing);
- Services taxed as public utilities (including inter and intrastate telephone);
- Transient lodging (and restaurant meals);
- Transportation services;
- Personal services (barbers and beauticians);
- Admissions and amusements (including cable TV); and
- Business service

If at all possible, please respond to the survey by June 5.

The FTA FAX number is 202-624-7888 if you would prefer to respond to the survey other than by mail.
The final survey results will be distributed to all states on computer disk. The format will be Lotus 1-2-3, version 2.1 for IBM environments and Excel for Macintosh environments. Please inform the FTA of your preference using the enclosed response form.

Questions concerning the survey or the survey results should be addressed to Laird Graeser (202-624-8443). Mr Graeser, Director of Tax Research for the New Mexico Taxation and Revenue Department, is spending April, May and June with the FTA as an FTA associate.

A proposed schema for classifying the extent of service taxation by the various states will be presented at the FTA annual meeting in Charleston, June 10 through 13, along with an extensive bibliography and a summary and analysis of the issues.

The FTA will undertake to maintain the database of services subject to taxation by each of the states and will place the data on the TaxNet electronic network when this service becomes available.

Thank you for your timely response to this survey.
Sample Survey for New Mexico

New Mexico
Sales Tax and Other Taxes on Services -- as of July 1, 1990

INSTRUCTIONS: Please correct and extend the enclosed spreadsheet. If services (particularly the labor component) are taxable under sales tax, gross receipts tax or use tax, note the applicable state tax rate in the "Rate" column. If exempt or not taxable under the sales tax (use tax or gross receipts tax) statute, denote "E" in rate column. If taxable under another statute, note the applicable state tax rate and annotate the other tax program in the "Notes" column. In all cases, note exceptions, additions or specific information in the "Notes" column. If only the tangible personal property component of a particular service is taxable but not the labor, fill in the rate column with "E" and note "Parts and materials only taxable" in the notation column. If local option taxes are similar in kind and coverage to the services listed, please note.

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

General rate and notes

Agricultural Services
Soil preparation or crop services (including custom haybaling, aerial spraying, combining, grain fumigation, tobacco grading, and similar services) 1 5
Veterinary services performed by licensed veterinarian 2 5
Horse or dog training (not race horses or dogs) 3 5
Pet grooming 4 5
Landscape and horticultural services including (cemetery upkeep, lawn care and sod laying) 5 5

Industrial and Mining Services
Metal, non-metal, and coal mining services (incl. contract strip mining, exploration and test bore drilling) 6 5
Oil and gas exploration services (including contract exploration services, seismograph or geophysical services, etc.) 7 5
Oil and gas field services (including contract drilling services, plugging and abandoning wells, etc.) 8 5
Typesetting services, platemaking for the print trade 9 5

Construction
Gross income of construction contractors 10 5
Carpentry, painting, plumbing and similar trades 11 5
Construction service (grading, excavating, etc.) 12 5
Water well drilling 13 5

Utility and Transportation

Notes, additions or exceptions.

* Excludes government services; many farming and ranching services, services provided by certain nonprofit entities; services, other than research and development services performed out of state but used in state, services for resale, etc.

* Contract services performed for agricultural production are not entitled to the exemption from gross receipts for such production.
<table>
<thead>
<tr>
<th>Service</th>
<th>Code</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local and suburban passenger airplane, or train transportation</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Local and suburban (interurban) bus transportation</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Taxi service</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Intrastate courier service</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>Interstate air courier -- in-state pickup or delivery and billed in-state</td>
<td>18</td>
<td>E</td>
</tr>
<tr>
<td>Storage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automobile storage</td>
<td>19</td>
<td>5</td>
</tr>
<tr>
<td>Food storage (including raw products)</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Fur Storage</td>
<td>21</td>
<td>5</td>
</tr>
<tr>
<td>Household goods storage</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Mini-warehouse storage</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>Refrigerated storage</td>
<td>24</td>
<td>5</td>
</tr>
<tr>
<td>Marina services (docking, storage, cleaning, repair to boats)</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>Marine towing services</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>Travel agent services (including commissions)</td>
<td>27</td>
<td>5</td>
</tr>
<tr>
<td>Packing and crating services</td>
<td>28</td>
<td>5</td>
</tr>
<tr>
<td>Utility Service - Industrial Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intrastate telephone &amp; telegraph</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>Interstate telephone -- billed in state</td>
<td>30</td>
<td>3.5</td>
</tr>
<tr>
<td>Electricity</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Water</td>
<td>32</td>
<td>5</td>
</tr>
<tr>
<td>Natural gas</td>
<td>33</td>
<td>5</td>
</tr>
<tr>
<td>Other fuel</td>
<td>34</td>
<td>5</td>
</tr>
<tr>
<td>Sewer and refuse</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>Utility Service - Residential Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intrastate telephone &amp; telegraph</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Interstate telephone -- billed in state</td>
<td>37</td>
<td>5</td>
</tr>
<tr>
<td>Electricity</td>
<td>38</td>
<td>5</td>
</tr>
<tr>
<td>Water</td>
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<td>5</td>
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<tr>
<td>Natural gas</td>
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<td>5</td>
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<tr>
<td>Other fuel</td>
<td>41</td>
<td>5</td>
</tr>
<tr>
<td>Sewer and refuse</td>
<td>42</td>
<td>5</td>
</tr>
</tbody>
</table>

**Finance, Insurance and Real Estate**

<table>
<thead>
<tr>
<th>Service</th>
<th>Code</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank service charges</td>
<td>43</td>
<td>5</td>
</tr>
<tr>
<td>Insurance services (including fire loss appraisal, pension fund consulting and processing medical insurance claims on contract)</td>
<td>44</td>
<td>5</td>
</tr>
<tr>
<td>Investment advice and counseling</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>Loan broker fees</td>
<td>46</td>
<td>5</td>
</tr>
<tr>
<td>Real estate agent sales commissions</td>
<td>47</td>
<td>5</td>
</tr>
<tr>
<td>Real estate management fees (rental agents)</td>
<td>48</td>
<td>5</td>
</tr>
<tr>
<td>Real estate title abstract services</td>
<td>49</td>
<td>5</td>
</tr>
<tr>
<td>Tickertape reporting (financial reporting)</td>
<td>50</td>
<td>5</td>
</tr>
</tbody>
</table>

* Intracity taxi or bus exempt from local gross receipts tax.
* Taxable at 5% intrastate; exempt if interstate.
* Intracity taxi or bus exempt from local gross receipts tax.

* Receipts of government or non-profit entities exempt.

* 70% of call originating or terminating in New Mexico and billed in state taxable. Interbusiness access charges exempt.

* Garbage collection performed by government agency is exempt.

* 70% of call originating or terminating in New Mexico and billed in state taxable. Interbusiness access charges exempt.

* Garbage collection performed by government agency is exempt.
### F. Services

#### Personal services
- Beauty parlors and barber shops: 51
- Carpet and upholstery cleaning: 52
- Dating services: 53
- Debt counseling: 54
- Diaper service: 55
- Funeral services: 56
- Fishing and hunting guide service: 57
- Garment alteration and repair: 58
- Gift and package wrapping service: 59
- Health clubs, tanning parlors, reducing salons: 60
- Laundry and drycleaning, coin-operated: 61
- Laundry and drycleaning, non coin-op: 62
- Massage parlors: 63
- 900 Telephone number services: 64
- Personal instruction services (including music lessons, dance lessons, flying instruction, speed reading, etc.): 65
- Shoe repair: 66
- Swimming pool cleaning & maintenance: 67
- Tax return preparation services: 68
- Tuxedo rental: 69
- Water softening and conditioning service: 70

* Exempt if performed by nonprofit organization

#### Business Services

Sales of Advertising Time or Space:
- Billboards: 71
- Radio & Television (national advertising): 72
- Radio & Television (local advertising): 73
- Newspaper: 74
- Magazine: 75
- Advertising agency fees, not media placement: 76
- Armored car services: 77
- Bail bond fees: 78
- Check and debt collection: 79
- Commercial art and graphic design: 80
- Commercial linen supply: 81
- Credit information: 82
- Employment agencies: 83
- Interior decorating services: 84
- Janitorial services & building maintenance: 85
- Lobbying: 86
- Marketing: 87
- Packing and crating: 88
- Pest control services: 89
- Photocopying services: 90
- Photofinishing: 91
- Printing: 92
- Private investigation (detective) services: 93
- Process server fees: 94
- Public relations and management consulting: 95
- Secretarial and court reporting services: 96
- Security services: 97

* In state only

* Taxed under insurance premiums tax
<table>
<thead>
<tr>
<th>Service Description</th>
<th>Rate</th>
<th>Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sign construction and installation</td>
<td>98</td>
<td>5</td>
</tr>
<tr>
<td>Telemarketing on contract</td>
<td>99</td>
<td>5</td>
</tr>
<tr>
<td>Telephone answering and paging</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>Temporary help agency -- total fees</td>
<td>101</td>
<td>5</td>
</tr>
<tr>
<td>Testing laboratories (excluding medical)</td>
<td>102</td>
<td>5</td>
</tr>
<tr>
<td>Tire recapping and repairing</td>
<td>103</td>
<td>5</td>
</tr>
<tr>
<td>Window cleaning</td>
<td>104</td>
<td>5</td>
</tr>
</tbody>
</table>

**Computer and information services**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Rate</th>
<th>Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned (prepackaged) software</td>
<td>105</td>
<td>5</td>
</tr>
<tr>
<td>Modifications to canned software</td>
<td>106</td>
<td>5</td>
</tr>
<tr>
<td>Custom software, materials</td>
<td>107</td>
<td>5</td>
</tr>
<tr>
<td>Custom software, professional services</td>
<td>108</td>
<td>5</td>
</tr>
<tr>
<td>Information storage and retrieval services</td>
<td>109</td>
<td>5</td>
</tr>
<tr>
<td>(library services)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data processing (includes word processing)</td>
<td>110</td>
<td>5</td>
</tr>
<tr>
<td>Mainframe computer access and processing fees.</td>
<td>111</td>
<td>5</td>
</tr>
</tbody>
</table>

**Automotive services**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Rate</th>
<th>Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washing and waxing</td>
<td>112</td>
<td>5</td>
</tr>
<tr>
<td>Automotive road service and towing</td>
<td>113</td>
<td>5</td>
</tr>
<tr>
<td>Automotive maintenance and lubrication (excluding repair)</td>
<td>114</td>
<td>5</td>
</tr>
<tr>
<td>Parking</td>
<td>115</td>
<td>5</td>
</tr>
<tr>
<td>Rustproofing and undercoating</td>
<td>116</td>
<td>5</td>
</tr>
</tbody>
</table>

*Receipts of government or non-profit entities exempt.*

**Admissions and amusement fees**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Rate</th>
<th>Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admission to events where pari-mutuel racing allowed</td>
<td>117</td>
<td>5</td>
</tr>
<tr>
<td>Amusement parks</td>
<td>118</td>
<td>5</td>
</tr>
<tr>
<td>Billiard parlors</td>
<td>119</td>
<td>5</td>
</tr>
<tr>
<td>Bowling alleys</td>
<td>120</td>
<td>5</td>
</tr>
<tr>
<td>Cable TV including pay-per-view</td>
<td>121</td>
<td>5</td>
</tr>
<tr>
<td>Circuses and fairs</td>
<td>122</td>
<td>5</td>
</tr>
<tr>
<td>Coin operated video games</td>
<td>123</td>
<td>5</td>
</tr>
<tr>
<td>College or school sporting events</td>
<td>124</td>
<td>5</td>
</tr>
<tr>
<td>Membership fees in private clubs</td>
<td>125</td>
<td>5</td>
</tr>
<tr>
<td>Music, theatre, art, dance, sculpture events</td>
<td>126</td>
<td>5</td>
</tr>
<tr>
<td>Pinball and other mechanical games</td>
<td>127</td>
<td>5</td>
</tr>
<tr>
<td>Professional sports events</td>
<td>128</td>
<td>5</td>
</tr>
<tr>
<td>Rental of films and tapes to theaters.</td>
<td>129</td>
<td>E</td>
</tr>
<tr>
<td>Rental of video tapes for home viewing</td>
<td>130</td>
<td>5</td>
</tr>
</tbody>
</table>

*Prior to July 1, 1989, pari-mutuel admissions were subject to separate tax.*

*Taxable unless event sponsored by government or 501(c)(3) organization.*

*Taxable unless event sponsored by government or 501(c)(3) organization.*

*Taxable unless event sponsored by government or 501(c)(3) organization.*

*Taxable unless event sponsored by government or 501(c)(3) organization.*

*Exempt if rented for subsequent paid admission.*

**Professional Services**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Rate</th>
<th>Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and bookkeeping</td>
<td>131</td>
<td>5</td>
</tr>
<tr>
<td>Attorneys and paralegals</td>
<td>132</td>
<td>5</td>
</tr>
<tr>
<td>Dentists</td>
<td>133</td>
<td>5</td>
</tr>
<tr>
<td>Engineers, architects</td>
<td>134</td>
<td>5</td>
</tr>
<tr>
<td>Land Surveyors</td>
<td>135</td>
<td>5</td>
</tr>
<tr>
<td>Service Description</td>
<td>Code</td>
<td>Rate</td>
</tr>
<tr>
<td>------------------------------------------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Medical Laboratories</td>
<td>136</td>
<td>5</td>
</tr>
<tr>
<td>Nursing services out-of-hospital</td>
<td>137</td>
<td>5</td>
</tr>
<tr>
<td>Physicians</td>
<td>138</td>
<td>5</td>
</tr>
</tbody>
</table>

**Rentals and Transient Accommodations**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Code</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term rentals of personal property (generally)</td>
<td>139</td>
<td>5</td>
</tr>
<tr>
<td>Long term lease of personal property (generally)</td>
<td>140</td>
<td>5</td>
</tr>
<tr>
<td>Short term rental of dragline, backhoe, other construction machinery</td>
<td>141</td>
<td>5</td>
</tr>
<tr>
<td>Long term lease of dragline, backhoe, other construction machinery</td>
<td>142</td>
<td>5</td>
</tr>
<tr>
<td>Short term rental to licensed contractors of hand tools</td>
<td>143</td>
<td>5</td>
</tr>
<tr>
<td>Short term rental of cars and trucks (without driver)</td>
<td>144</td>
<td>5</td>
</tr>
<tr>
<td>Long term lease of cars and trucks without driver</td>
<td>145</td>
<td>5</td>
</tr>
<tr>
<td>Limousine service (rental with driver)</td>
<td>146</td>
<td>5</td>
</tr>
<tr>
<td>Rental of aircraft -- without pilot (short term)</td>
<td>147</td>
<td>5</td>
</tr>
<tr>
<td>Lease of aircraft -- without pilot (long term)</td>
<td>148</td>
<td>5</td>
</tr>
<tr>
<td>Charter flights -- rental of aircraft with pilot (short term)</td>
<td>149</td>
<td>5</td>
</tr>
<tr>
<td>Short term rent of hotel, motel or lodging space</td>
<td>150</td>
<td>5</td>
</tr>
</tbody>
</table>

* In addition to statewide gross receipts tax, hotels, motels, lodging houses are subject to a local option municipal and county lodgers tax of up to 5%.

**Fabrication, Installation and Repairs**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Code</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom fabrication labor</td>
<td>152</td>
<td>5</td>
</tr>
<tr>
<td>Repairs (generally) -- materials</td>
<td>153</td>
<td>5</td>
</tr>
<tr>
<td>Repairs (generally) -- labor</td>
<td>154</td>
<td>5</td>
</tr>
<tr>
<td>Labor charges for repair of aircraft</td>
<td>155</td>
<td>5</td>
</tr>
<tr>
<td>Labor charges for repairs to boats and ships in interstate commerce</td>
<td>156</td>
<td>N/A</td>
</tr>
<tr>
<td>Labor charges for repairs to boats and ships in intrastate commerce</td>
<td>157</td>
<td>5</td>
</tr>
<tr>
<td>Labor charges for repairs to commercial fishing vessels</td>
<td>158</td>
<td>N/A</td>
</tr>
<tr>
<td>Labor charges for repairs to railroad rolling stock</td>
<td>159</td>
<td>5</td>
</tr>
<tr>
<td>Labor charges for repairs to motor vehicles</td>
<td>160</td>
<td>5</td>
</tr>
<tr>
<td>Labor charges for repairs to television and electronic equipment</td>
<td>161</td>
<td>5</td>
</tr>
<tr>
<td>Labor charges for repairs to other tangible personal property</td>
<td>162</td>
<td>5</td>
</tr>
</tbody>
</table>
Labor charges for repairs or remodeling of real property 163 5
Labor charges for repairs delivered under warranty 164 E
Service contracts sold at the time of sale of tangible personal property 165 5
Labor charges for installation of tangible personal property by seller of property 166 5
Labor charges for installation of tangible personal property by other than seller 167 5
Custom processing (service performed on property belonging to customer) 168 5
Meat preparation (slaughtering, cutting and wrapping) 169 5
Taxidermy 170 5
Welding repair and fabrication 171 5

**Taxes on Other Services**
Do you impose sales tax on any other services not enumerated here? (Please list) 172 5

**Use Tax**
Do you tax the use (not sale) of services in the state? 175 E

At what rate?
Who is legally liable for use tax payment? 176 N/A

Vendor in case of R & D.

**Other/Administrative**
What are the rules for determining location of services for local option tax purposes (commercial domicile, location of related real or personal property, etc.) 178

Do you exempt sales of services sold to government entities? 179

Do you exempt sales of services sold to non-profit organizations? 180

Do you exempt sales of services sold to federally chartered banks? 181

Is the legal burden of the sales tax on services imposed on the seller or the buyer? 182

* Gross receipts taxed; labor and material delivered under warranty do not increase receipts unless reimbursed by manufacturer, in which case taxable.

Virtually all services are taxed as gross receipts, except those delivered by governmental agencies or certain nonprofit organizations.

No effort is made to impose tax on services received from out of state except for research and development services.

Construction services are delivered at the location of real estate; other services are delivered at commercial domicile of business unless a branch office (more extensive than warehousing) is located elsewhere and from which the service is performed.

No; tangible personal property is exempt, but services are taxable.

No; tangible personal property sold to 501(c)(3)s is exempt. Receipts of 501(c)(3) and 501(c)(6) organizations exempt from tax.

No

Seller
APPENDIX B:
LIST OF SIC CODES FOR ALL SERVICES
Services, Construction, T.C.U. and other Industrial Groups

SIC Code

AGRICULTURE

07 Agricultural services
071 Soil preparation services
072 Crop services
0721 Crop planting, cultivating and protecting
  Aerial spraying
  Pruning orchard trees and vines
0722 Crop harvesting, primarily by machine
  Chopping and silo filling
  Combining
  Hay mowing, raking, baling and chopping
0723 Crop preparation services for market, except cotton ginning
  Bean cleaning
  Corn shelling
  Corn & rice drying
  Grain fumigation
  Peanut shelling
  Seed cleaning
  Tobacco grading

0724 Cotton ginning
074 Veterinary services
0741 Veterinary services for livestock
0742 Veterinary services for animal specialities
075 Animal services, except veterinary
0751 Livestock services, except veterinary
0752 Animal specialty services, except veterinary
076 Farm labor and management services
0761 Farm labor contractors and crew leaders
0762 Farm management services
078 Landscape and horticultural services
0781 Landscape counseling and planning (incl. landscape architects)
0782 Lawn and garden services
  Cemetery upkeep
  Lawn care
  Lawn fertilizing service
  Lawn mowing
  Mowing highway center strips and edges
  Sod laying

0783 Ornamental shrub and tree service

MINING

10 Metal mining
108 Metal mining services
1081 Metal mining services
  Boring test holes
  Draining or pumping of metal mines on contract
  Exploration for metal mining on contract
  Strip mining of metals on contract

12 Coal mining
124 Coal mining services
  Bituminous or lignite mining services on contract
  Strip mining on contract
  Tunneling for coal deposits on contract

13 Oil and gas extraction
MINING (Continued)

138 Oil and gas field services
1381 Drilling oil and gas wells
1382 Oil and gas field exploration services
1389 Oil and gas field services, n.e.c.
    Cleaning wells on contract
    Dismantling of oil well rigs on contract
    Fishing for tools on contract basis
    Gas compressing, natural gas at the field
    Mud service oil field drilling
    Plugging and abandoning wells on contract
    Surveying wells on a contract basis

148 Nonmetallic minerals services, except fuel
    Boring test holes for nonmetallic minerals on contract
    Draining or pumping of nonmetallic mineral mines on contract
    Drilling for nonmetallic minerals on contract
    Exploration for nonmetallic minerals on contract
    Mine development for nonmetallic minerals

CONSTRUCTION

15 Building construction -- general contractors and operative builders
152 General building contractors -- residential
1521 General contractors - single family houses
1522 General contractors - residential buildings, other than single family
153 Operative builders -- (spec. building)
154 General building contractors - nonresidential buildings
1541 General building contractors - industrial buildings and warehouses
1542 General contractors - nonresidential buildings, other than 1541
16 Heavy construction other than building construction
161 Highway and street construction, except elevated highways
162 Heavy construction, except highway and street construction
1622 Bridge, tunnel and elevated highway construction
1623 Water, sewer, pipeline and communications and power line construction
1629 Heavy construction, n.e.c.
17 Special trade contractors
171 Plumbing, heating and air-conditioning
172 Painting and paper hanging
173 Electrical work
174 Masonry, stonework, tile setting and plastering
1741 Masonry, stone setting, and other stone work
1742 Plastering, drywall, acoustical, and insulation work
1743 Terrazzo, tile, marble and mosaic work
175 Carpentry and floor work
1751 Carpentry work
1752 Floor laying and other floor work, n.e.c.
176 Roofing, siding and sheet metal work
177 Concrete work
178 Water well drilling
179 Miscellaneous special trade contractors
1791 Structural steel erection
1793 Glass and glazing work
1794 Excavation work
1795 Wrecking and demolition work
1796 Installation or erection of building equipment, n.e.c.
1799 Special trade contractors, n.e.c.

MANUFACTURING

279 Service industries for the printing trade
2791 Typesetting
2796 Platemaking and related services
TRANSPORTATION, COMMUNICATION & UTILITIES

41 Local and suburban transit and interurban highway passenger trans.
411 Local and suburban passenger trans.
412 Taxicabs
413 Intercity and rural bus transportation
414 Bus charter service
415 School buses
417 Terminal and service facilities for motor vehicle passenger trans.
42 Motor freight transportation and warehousing
421 Trucking and courier services, except air
422 Public warehousing and storage
4221 Farm product warehousing and storage
4222 Refrigerated warehousing and storage
4225 General warehousing and storage (incl. mini-warehouses)
4226 Special warehousing and storage
423 Terminal and joint terminal maintenance facilities for motor freight trans.
44 Water transportation
441 Deep sea foreign transportation of freight
442 Deep sea domestic transportation of freight
443 Freight transportation on the Great Lakes - St. Lawrence
444 Water transportation of freight, n.e.c.
448 Water transportation of passengers
4481 Deep sea transportation of passengers, except by ferry
4482 Ferries
4489 Water transportation of passengers, n.e.c.
  Airboats
  Excursion boats
  Sightseeing boats
  Water taxis
449 Services incidental to water transportation
4491 Marine cargo handling
4492 Towing and tugboat services
4493 Marinas
4499 Water transportation services, n.e.c.
45 Air transportation
451 Air transportation, scheduled and air courier services
4512 Air transportation, scheduled
4513 Air courier services
452 Air transportation, nonscheduled
458 Airports, flying fields and airport terminal services
46 Transportation services
472 Arrangement of passenger transportation
4724 Travel agencies
4725 Tour operators
4729 Arrangement of passenger transportation, n.e.c.
473 Arrangement of transportation of freight and cargo
  Shipping agents
  Tariff consultants
  Customs clearance of freight
  Freight consolidation
474 Rental of railroad cars
478 Miscellaneous services incidental to transportation
4783 Packing and crating
4785 Fixed facilities and inspection and weighing services for motor vehicle trans.
4789 Transportation services, n.e.c.
  Cabs, horse-drawn, for hire
  Freight car loading and unloading - not trucking
  Pipeline terminal facilities, independently operated
  Railroad car repair
  Space flight operations, except government
  Stockyards, not primarily for fattening or selling livestock
TRANSPORTATION, COMMUNICATION & UTILITIES (Continued)

48 Communications
481 Telephone communications
4812 Radiotelephone communications (cellular phones, beepers, etc.)
4811 Telephone communications
482 Telegraph and other message communications (incl. fax & telex services)
483 Radio and television broadcasting stations
4832 Radio broadcasting stations
4833 Television broadcasting stations
484 Cable and other pay television services
489 Communications services, n.e.c.
49 Gas, electric, sanitation utilities
491 Electric services
492 Gas production and distribution
493 Combination electric and gas, and other utility service
494 Water supply
495 Sanitary services
496 Steam and air-conditioning supply
497 Irrigation systems

FINANCE, INSURANCE AND REAL ESTATE

61 Federal and federally-sponsored credit agencies
616 Mortgage bankers and brokers
6163 Loan brokers
62 Security, commodity brokers and services
628 Services allied with the exchange of securities or commodities
6282 Investment advice
6289 Services allied with exchange of securities or commodities, n.e.c.
   Commodity exchange clearinghouse
   Financial reporting
   Quotation service, stock
   Stock transfer agents
   Tickertape reporting
64 Insurance agents, brokers, services
   Fire insurance underwriter's laboratories
   Fire loss appraisal
   Insurance adjusters
   Insurance agents
   Insurance brokers
   Medical insurance claims, processing of: on contract
   Pension and retirement plan consultants
   Rate making organizations
65 Real estate
651 Real estate operators and lessors
653 Real estate agents and managers (incl. appraisers)
654 Title abstract offices
655 Subdividers and developers

SERVICES

70 Hotels, rooming houses, camps and other lodging places
701 Hotels and motels
702 Rooming and boarding houses
703 Camps and recreational vehicle parks
704 Organization hotels and lodging houses, on membership basis
72 Personal services
721 Laundry, cleaning and garment services
7211 Power laundries
7212 Garment pressing and agents for laundries and dry cleaning
7213 Linen supply
7215 Coin-operated laundries and cleaning
7216 Dry cleaning plants, except rug
7217 Carpet and upholstery cleaning
SERVICES (Continued)

7218 Industrial launderers
7219 Laundry and garment services, n.e.c. (incl. diaper services and alterations)
722 Photographic studios, portrait
723 Beauty salons
724 Barber shops
725 Shoe repair, shoe shine, etc.
726 Funeral service, crematories
729 Miscellaneous Personal Services
7291 Tax Return Preparation Services
7299 Misc. personal services, n.e.c.
               Babysitting
               Checkroom concessions or services
               Clothing rental
               Costume rental
               Debt counseling
               Diet workshops
               Dating services
               Escort service
               Locker rental (not refrigerated)
               Massage
               Steam baths
               Tanning salons
               Tattoo parlors
               Tuxedo rental

73 Business Services
731 Advertising
    7311 Advertising Agencies
    7312 Outdoor Advertising Services
    7313 Radio, television, and publisher's advertising representatives
    7319 Advertising, n.e.c. (except direct mail solicitation)
732 Credit reporting, collection agencies
7322 Adjustment and collection services (other than insurance)
7323 Credit reporting services
733 Mailing, reproduction and stenographic services
7331 Direct mail advertising services
7334 Photocopying and duplicating services
7335 Commercial photography
7336 Commercial art and graphic design
7338 Secretarial and court reporting services
734 Services to dwellings, other buildings
7342 Disinfecting and pest control services
7349 Cleaning and maintenance services to buildings
735 Miscellaneous equipment rental and leasing
7352 Medical equipment rental and leasing
7353 Heavy construction equipment rental and leasing
7359 Equipment rental and leasing, n.e.c.
               Airplane rental
               Appliance rental
               Furniture rental
               Industrial truck rental
               Office machine rental
               Oil field equipment rental
               Party supplies rental
               Piano rental
               Television rental
               Tool rental
736 Personnel supply services
7361 Employment agencies
7363 Temporary help supply services
737 Computer, data processing services
7371 Computer programming services
SERVICES (Continued)

7372 Prepackaged software
7373 Computer integrated systems design
7374 Computer processing and data preparation and processing services
7375 Information retrieval service
7376 Computer facilities management services
7377 Computer rental and leasing
7378 Computer maintenance and repair
7379 Computer related services, n.e.c.

738 Miscellaneous business services
7381 Detective, guard and armored car services
7382 Security systems services
7383 News syndicates
7384 Photofinishing laboratories
7389 Business services, n.e.c.

Author's agent
Arbitration and conciliation services
Artist's agent
Auctioneering service
Automobile repossession service
Automobile shows, flower shows, home shows (promoters of)
Bondpersons
Business brokers
Check validation service
Convention bureaus
Commercial divers
Fire extinguisher service
Fund raising on contract
Handwriting analysis
Interior decorating consulting
Message service, telephone answering (except beepers)
Paralegal service
Parcel packing service
Press clipping service
Process serving
Sign painting and lettering shops
Speaker's bureaus
Swimming pool cleaning and maintenance
Telemarketing on contract or fee basis
Telephone directories
Timeshare condominium exchange service

75 Automotive repair, services, and parking
751 Automobile rental and leasing, without drivers
7513 Truck rental and leasing, without drivers
7514 Passenger car rental without drivers
7515 Passenger car leasing
7519 Utility trailer and recreational vehicle rental
752 Automobile parking
753 Automotive repair shops
7532 Top, body, and upholstery repair shops and paint shops
7533 Automotive exhaust system repair shops
7534 Tire retreading and repair shops
7536 Automotive glass replacement
7537 Automotive transmission repair shops
7538 General automotive repair shops
7539 Automotive repair shops, n.e.c.
754 Automotive services, excluding.. repair
7542 Car washes
7549 Automotive services, except repair and car washes

Auto emissions testing
Diagnostic centers, automotive
SERVICES (Continued)

Lubricating service, automotive
Road service, automotive
Towing, automotive
Undercoating, automotive

Miscellaneous repair services
Electrical repair shops
Radio and Television Repair
Refrigeration and Air-Conditioning Service and Repair Shops
Electrical and Electronic Repair Shops, n.e.c.
Watch, Clock and Jewelry Repair
Reupholstery and Furniture Repair
Miscellaneous repair shops and related services
Welding Repair
Armature Rewinding Shops
Repair shops and related services, n.e.c.
Agricultural equipment repair
Antique repair and restoration
Bicycle repair
Blacksmith shops
Cesspool cleaning
Furnace and chimney cleaning
Furnace cleaning service
Gas appliance repair service
Gunsmith shops
Horseshoeing
Lawnmower repair shops
Luggage repair shops
Musical instrument repair shops
Piano tuning
Sharpening knives, saws and tools
Taxidermists
Typewriter repair

Motion Pictures
Motion picture production and allied services
Motion picture distribution and allied services
Motion picture theaters
Video tape rental

Amusement, recreational services excluding motion pictures
Dance studios, schools and halls
Theatrical producers, orchestras, entertainers
Bowling alleys
Commercial sports, other amusements, recreation services
Professional sports clubs and promoters
Racing, including track operations (horses, dogs & cars)
Physical fitness facilities (including reducing salons)
Public golf courses
Coin operated amusement devices (including video games)
Amusement parks
Membership sports and recreational clubs
Amusement and recreation services, n.e.c.
Aerial tramways
Astrologers
Baseball instruction
Basketball instruction
Billiard parlors
Bookies
Canoe rental
Circus companies
Day camps
Fishing piers and lakes, operation of
Fortune tellers
SERVICES (Continued)

- Gocart rentals
- Golf courses, miniature, operation of
- Horse shows
- Hunting guides
- Judo instruction
- Karate instruction
- Lifeguard services
- Rental of beach chairs
- Rental of bicycles
- Rental of saddle horses
- Riding academies and schools
- River rafting, operation of
- Rodeos, operation of
- Schools and camps, sports instructional
- Shooting ranges
- Ski instruction
- Ski lifts
- Tourist attractions, natural wonder; commercial
- Tourist guides

80 Health Services
801 Offices and clinics of doctors of medicine
802 Offices and clinics of dentists
803 Offices and clinics of doctors of osteopathy
804 Offices and clinics of other health practitioners
8041 Offices of chiropractors
8042 Offices of optometrists
8043 Offices of podiatrists
8049 Offices and clinics of health practitioners, n.e.c.
  - Acupuncturists
  - Audiologists
  - Dieticians
  - Midwives
  - Occupational therapists
  - Physical therapists
  - Psychiatric social workers
  - Psychiatrists, clinical
  - Psychiatrists, except M.D.
  - Speech clinicians

805 Nursing and personal care facilities
8051 Skilled nursing care facilities
8052 Intermediate care facilities
8059 Nursing and personal care facilities, n.e.c.
  - Convalescent homes with health care
  - Domiciliary care with health care

806 Hospitals
8062 General medical and surgical hospitals
8063 Psychiatric hospitals
8069 Specialty hospitals (incl. alcoholism and drug treatment rehabilitation)
807 Medical and dental laboratories
808 Home health care services
809 Miscellaneous health and allied services, n.e.c.

81 Legal services (including legal aid societies)

82 Educational Services
821 Elementary and secondary schools
822 Colleges and universities
823 Libraries
824 Vocational schools
829 Schools and educational services, n.e.c.
  - Art schools, except commercial
  - Automobile driving instruction
  - Charm schools
SERVICES (Continued)

- Civil service schools
- Continuing education programs
- Drama schools
- Flying instruction
- Language schools
- Outdoor self-reliance schools
- Public speaking schools
- Speed reading schools
- Tutoring

- Social Services
- Individual and family social services
- Job training and vocational rehabilitation services
- Residential care
- Child day care services
- Residential care
- Social services, n.e.c.

- Museums, art galleries, and botanical and zoological gardens

- Selected membership organizations
- Business associations
- Professional membership organizations
- Labor organizations
- Civic, social, and fraternal associations
- Political organizations
- Religious organizations

- Engineering, accounting, research, management and related services
- Engineering, architectural, surveying services
- Engineering services
- Architectural services
- Surveying services
- Accounting, auditing and bookkeeping services
- Research, development and testing services
- Commercial research and development laboratories
- Commercial economic, sociological and educational research
- Non-commercial research organizations
- Testing labs and facilities
- Management and public relations
- Management services
- Management consulting services
- Public relations services
- Facilities support management services (incl. private jails)
- Business consulting services, n.e.c.

- Private Households employing domestic workers (incl. babysitting)

- Services, not elsewhere classified
- Actuaries, consulting
- Announcers, radio and television services
- Artists, except commercial and medical
- Inventors
- Lecturers
- Newspaper columnists
- Writers