

**Arizona Society of CPAs
Taxation of Professional Services**

The Arizona Society of CPAs (ASCPA) opposes the imposition of sales and use tax on services. This opposition is based on the unique situations that arise in the creation and delivery of services, which are not suited to the imposition of a traditional sales tax.

The concept of imposing sales and use tax on services has a number of inherent problems described below.

Administrative Complexities – A sales tax on services brings with it tremendous enforcement and compliance issues, significant costs of compliance and numerous administrative burdens.

Counter to Good Tax Policy – Imposing a sales tax on services violates many of the principals of “good tax policy” such as a tax upon a tax, tax law transparency, equity and fairness, simplicity and economy of collection.

Negative Impact on Arizona’s Economic Development and Competitive Climate – Since taxes and economic development are inextricably linked, Arizona may suffer many unintended and unwanted consequences after imposition of a sales tax on services. These include business expansion impeded, employment opportunities reduced, jobs shifted outside Arizona, job outsourcing and small/emerging business disadvantaged.

Discrimination against small/emerging businesses – Small business will either pay more for services, thereby impacting their profitability, will be forced to purchase fewer services or will be forced to use outside services. They probably will not be able to bring services in-house to avoid paying a services tax.

Multiple Points of Delivery/Use and Creation of the Service – Because services are conducive to electronic delivery, the delivery location is often unknown to the seller and frequently involves the talents of multiple service providers in multiple locations.

Multiple Delivery Dates of Partial Products – Service delivery often involves multiple stages to arrive at a final product that can span many months.

Multiple Taxing Jurisdictions – The delivery, use and creation of a service is likely to be located in multiple taxing jurisdictions (including different tax rates and different exemptions between localities within a single state), making the sourcing of the service difficult, if not impossible, to determine.

Five states (Delaware, Hawaii, Nevada, New Mexico and South Dakota) currently impose some form of tax on accounting services. Of these states, Nevada and South Dakota are the only states that do not have a state income tax, and Delaware does not have a sales tax.

Please contact Kevin DeMenna at 602-252-5155 or Cindie Hubiak, President & CEO of the ASCPA, at 602-324-2888, if you have any questions.

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