

Impose sales tax on most services (option to exclude purchases by businesses)

Description This proposal would extend sales and use tax to most services, including consumer services, business services, insurance services, real estate services, most financial services, and medical services.

This proposal provides two options:

- **Option 81** - Require all purchases to be subject to retail sales tax, *or*
- **Option 82** - Provide a sales/use tax exemption for purchases made by businesses.

Consumer services include, but are not limited to:

- Personal care services, such as hair, nail, and skin care, including hair replacement and removal, and non-prescription massage services
- Instructional lessons
- Satellite and cable services
- Service fees related to travel arrangements and fees related to non-sporting events
- Travel agent commissions
- Tax preparation services

Business services include, but are not limited to:

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|--------------------------|---|-----------------------|
| • Accounting | • Advertising | • Security services |
| • Architectural services | • Computer-related services | • Employment services |
| • Engineering services | • Janitorial services | • Legal services |
| • Management consulting | • Appraisal services (other than for real estate) | |

Real estate services include:

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|----------------------------------|----------------------------------|-----------------------------------|
| • Building inspection services | • Land surveying and mapping | • Managing real estate for others |
| • Real estate brokerage services | • Real estate appraisal services | |

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Impose sales tax on most services (optional exclusion for businesses), Continued

Description (continued)

Financial services include:

- Arranging loans by bringing borrowers and lenders together
- Providing trust, fiduciary, and custody services
- Banking services for which a fee is charged
- Investment management services
- Financial planning advice and investment counseling
- Securities trading services

Financial and real estate services do not include interest on loans, discount points, and the portion of loan origination or other fees that are recognized over the life of the loan as an adjustment to yield.

Current Law

Sales tax applies to sales of tangible personal property, digital products, and a small number of services. A B&O tax rate of 0.471% applies to most retail sales.

Most services are not subject to sales tax and are subject to B&O tax at a combined rate of 1.8%. This rate is comprised of a basic rate of 1.5% and a temporary surtax of 0.3% until July 1, 2013. Hospitals and persons performing scientific research and development are exempt from the surtax. Travel agent commissions are subject to the preferential tax rate of 0.275%.

Revenue Impact

General Fund Impacts (\$ millions):

Option	Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
81	\$0	\$1,581.7	\$1,581.7
82	\$0	\$713.2	\$713.2

Notes:

- *The revenues estimated assume broad inclusion of business services. Any changes or limitations to included services will result in reduced revenues.*
- *Estimated impact from imposing sales tax on banking services where a fee is charged is indeterminate and is not included in the total revenue impact.*
- *Estimates assume a July 1, 2012, effective date, representing 11 months of collections for FY 2013.*
- *Estimates reflect the September 2011 Economic & Revenue Forecast Council revenue forecast.*

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Impose sales tax on most services (optional exclusion for businesses), Continued

Expenditure Impact

Option	Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
81	\$3,123,600	\$5,415,900	\$8,539,500
82	\$3,182,600	\$5,511,400	\$8,694,000

Note: The expenditure estimates assume a broad inclusion of business services. Any changes or limitations to included services could result in a change to expenditures.