

## Tax on Services

In recent years there have been proposals to impose a sales tax on services—including those provided by CPAs—to raise billions in new tax revenues. Similar broad tax on services proposals have been unsuccessful in a number of other states. Should this issue come before you, please keep in mind these concerns raised by the CPA profession.

### **CaICPA has the following concerns regarding imposing a sales tax on services:**

**Negative Impact on Small Business:** The majority of small businesses would be negatively impacted. Large employers can avoid paying a professional services tax by shifting to in-house accounting professionals instead of using the services of outside providers. Small businesses employing the services of outside professionals would be stuck paying the tax. Further, the added cost could drive many small businesses to a “do-it-yourself” approach, which can lead to costly mistakes and noncompliance. Other businesses will simply just move underground.

**Competitive Disadvantage for California Providers:** Such a tax would put California service providers at a serious competitive disadvantage to out-of-state service providers. Businesses in need of accounting or tax services can simply seek the services of a non-California firm to avoid having to pay an additional tax.

#### **Increased Cost to Comply with the Law:**

- Imposing a sales tax on tax preparation or accounting services places a tax on Californians who are mandated by law to file a tax return. Tax laws are complex and most people need to turn to a tax professional to make sure they are complying with the law.
- State and local government entities are major consumers of services, especially audit services provided by CPAs. For example, school districts and local municipalities are required by law to be audited by an independent auditor on a regular basis. Adding a tax to these services would greatly increase costs to government agencies at a time when they are cutting as many costs as possible.

**Costly Administrative Burden:** There will be a new administrative burden with the new sales tax on services on California businesses in the form of compliance costs for both businesses and the government. New businesses, unfamiliar with sales taxes, would need to take steps to comply, and the Board of Equalization would have to identify new businesses providing services and develop a process for administering and collection the new tax.

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