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Shane Ratigan • Jun. 20, 2016



Small businesses have a big presence when it comes to providing services: [according to the U.S. Small Business Administration](#), the top two industry categories for small businesses (defined as fewer than 500 employees) in the U.S. are “professional, scientific, and technical services;” and “other services (except public administration).” In fact, small businesses make up 85.8% of employment in the “other services” industry category in the U.S.

In the past, many small businesses that provided services, rather than sale of goods, did not have to deal with sales taxes at all. However, that is changing as the U.S.

economy is increasingly driven by services and governments look for more sources of

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the jurisdiction(s) where you are taxed. These can vary a great deal, so you need to know which specific rules will apply to you.

But there are some basic principles and things to watch out for if you're wondering whether you might have to collect sales taxes on your services.

Presumed taxable vs. presumed exempt states

Most of the 45 states that charge sales tax consider some services taxable. The majority of states (41), plus the District of Columbia, treat services as not subject to sales tax unless specifically made taxable by law. However, four states (Hawaii, South Dakota, New Mexico, and West Virginia) consider services to be taxable by default, unless they are exempted by law. If your business sells services, it's crucial to know whether a state where you have nexus presumes that services are taxable or non-taxable.

More states are looking at changing their default stance on the taxability of services in order to increase their revenue. California Senate Bill 8, which would [impose a tax on nearly all professional services](#), is an example of this type of attempt. Expected to raise \$10 billion a year in sales revenue if passed, the bill did not make it to a vote last year but was expected to make a return this year. The governors of Illinois and Pennsylvania have also come out in favor of extending sales taxes to more services in their states.

Types of taxable services

Services generally subject to sales tax can be divided into several groups. However, each of these types of services can be treated differently in each jurisdiction.

Services to tangible personal property (TPP): These services typically improve or repair property, with car repair being one example.

It's important to note that if there is a tax exemption for a service to tangible

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for example. Some states may also treat new construction differently than remodeling, with new construction exempt and remodeling services subject to sales tax.

Business services: Services performed for companies and businesses fall into this category and can range from credit reporting to extermination services.

Personal services: Grooming or self-improvement services provided by businesses such as tanning or hair salons fit into this area.

Professional services: Many services provided by professionals such as attorneys, physicians, accountants, and other licensed professionals are currently not subject to sales tax, but states are taking a second look at this potential revenue source.

Amusement/Recreation: Admission to recreational events, amusement parks, as well as other types of entertainment, are examples of services in this category.

Towards more taxation

When it comes to making changes to sales taxes on services, states are generally moving in one direction: towards taxing more services. Some recent changes among U.S. states include:

- Washington State **imposed sales taxes** on physical fitness services, with a wide range of activities covered, ranging from ziplining to martial arts to snow sports.
- Connecticut now **charges sales tax** on car wash services—except for coin-operated car washes.
- North Carolina **changed its laws** to make several services subject to sales tax, including clothing alterations performed by a retailer, shoe repair, and tombstone or monument installation.

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provide accurate sales-tax calculations based on the latest rules, rates and boundaries.

Sales Tax

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