

Testimony Presented by

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Good morning Chairman Eichelberger, Chairman Blake, and members of the Senate Finance Committee. Thank you for the opportunity to discuss the Pennsylvania Institute of Certified Public Accountants' (PICPA) opposition to the expansion of the sales tax base to accounting, auditing, tax, and related professional services.

My name is Jason Skrinak, and I am a principal with the accounting firm of McKonly & Asbury CPAs here in the Harrisburg area. I am also past chair of the PICPA Committee on State Taxation. Founded in 1973, McKonly & Asbury is one of the area's most respected accounting and consulting firms. Our firm and related organizations employ nearly 70 individuals. McKonly & Asbury provides advisory, assurance, entrepreneurial, and tax services to many of the region's largest and most well-known companies and organizations.

Founded in 1897, the PICPA serves nearly 22,000 individual members as the voice of the accounting profession across the Commonwealth of Pennsylvania. Membership is composed of CPAs in public accounting—large firms, regional firms, and sole proprietors—as well as those CPAs working in business and industry, government, and education. PICPA's mission is to further the well-being of its members

while upholding the public interest by articulating positions on professional and public issues where the expertise of CPAs is relevant.

The issue of expanding sales and use taxes to include professional services usually becomes active during periods of low tax revenue as states seek to broaden the number of those who are taxed. The past several years have seen dozens of states consider taxes on professional service, and the expectation is that the trend will remain steady.

Currently, only three states tax all professional services through a gross receipts tax: Hawaii (4 percent), New Mexico (5 percent), and South Dakota (4 percent). Some states also have taxes that affect, but do not specifically target, the accounting profession. For example, Delaware imposes a gross receipts tax of .004 percent on monthly receipts over \$100,000, and the state of Washington has a 1.8 percent business and occupation tax on service providers.

Four states have enacted a sales tax of professional services in the past—Florida, Massachusetts, Michigan, and Maryland. All four states quickly *repealed their laws before or shortly after they went into effect* because of concerns of an unfair impact on in-state providers versus out-of-state providers. Additionally, lawmakers found that it was difficult to source

the service, let alone determine when and how the services were being delivered.

Although many states tax some services, there is no strong trend of state laws expanding the sales tax base to include professional services. Even at the height of the recent recession, most states looking at a sales tax on professional service rejected the idea as inherently unworkable. In 2013, 15 states saw 40 bills containing tax on service language introduced in their respective legislatures only one passed and it was repealed before enactment. In 2014 five bills were introduced in five states. None of these bills were signed into law.

Significantly reordering a state's tax and revenue systems is a major undertaking that can have dramatic implications – especially if done precipitously, quickly, or rashly. If the state's effort to shift to a services tax was only partly successful – and estimates were wrong and significant revenue was not collected – the state would have to make up potentially hundreds of millions of lost revenue within the same fiscal year. This would disrupt many major programs, and harm the state's reputation with, and ability to court, businesses.

The expansion of the base of taxable services would also create a competitive disadvantage for states seeking to enact such proposals. Given the disparity of states that currently tax services versus those that do not, Pennsylvania would be discouraging relocation and expansion of businesses in the Commonwealth.

None of the states that are contiguous to Pennsylvania currently tax services, and by enacting a sales tax on services, lawmakers will negatively affect economic development and discourage the use of professional services.

Lastly, a tax on accounting, tax preparation, and related professional services –even one that exempts business-to-business transactions – is an unfair taxation on the services necessary to comply with state tax laws. Individuals depend on accounting services to comply with both state and federal tax laws. To tax compliance with these laws compounds the tax burden borne by individuals. This could lead to many preparing their own returns, a “do-it-yourself” approach that can lead to costly mistakes and noncompliance. Without professional guidance on tax matters, the potential for lower accuracy and revenues will lead to a higher cost of compliance

borne by the state. Note, too, that this could be perceived as double taxation by many consumers.

Thank you again for the opportunity to discuss the PICPA's opposition to expanding the sales and use tax base to include accounting, auditing, tax, and related professional services. I would be happy to answer questions.