

March 4, 2022

The Honorable Geran Tarr  
Alaska House of Representatives  
State Capitol Room 128  
Juneau, AK 99801

**Re: Opposition to House Bill 373**

Dear Representative Tarr:

I am writing on behalf of the Professional Services Alliance (PSA) to express our opposition to House Bill 373 as currently drafted. The PSA promotes and protects the interests of professional services industries in the states, supporting policies that grow state and local economies. We oppose the provisions in House Bill 373 that would impose a sales tax on professional services.

Imposing a sales tax on professional services violates fundamental economic and tax policy principles, and such a tax would be complicated for both large and small businesses to comply with. We welcome an opportunity to talk with you regarding options to amend House Bill 373 to avoid the negative policy, economic, and political effects of the current proposal.

*Taxing Business Inputs Violates Fundamental Tax and Economic Policy Principles*

Economists and public finance experts agree that business inputs shouldn't be taxed under the sales tax. When business inputs are taxed, taxes pile up on one another along the production chain, resulting in double and even triple taxation, with taxes becoming embedded in the purchase price—a phenomenon known as "tax pyramiding." Tax pyramiding leads to numerous negative economic effects, such as creating arbitrary price differences between similar services, industries, and businesses.

A significant share of the professional services that would be taxed under House Bill 373 are business inputs (that is, business services purchased by other businesses to be used in the production or provision of another good or service.) The Council On State Taxation (COST) estimates that approximately 42 percent of existing state and local sales taxes are already imposed on business inputs.<sup>1</sup> Taxing professional services will only exacerbate this problem.

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<sup>1</sup>Council On State Taxation, [The Impact of Imposing Sales Tax on Business Inputs](#), 2019

*Professional Services are Business Inputs*


Consider, for example, accounting services, broadly defined by the Bureau of Economic Analysis (BEA) to include not only services provided by Certified Public Accountants, but also tax preparers, bookkeepers and similar professionals. Our analysis of BEA data shows that approximately 91 percent of accounting services are purchased by businesses, governments, and nonprofits.<sup>2</sup> Thus, imposing a sales tax on accounting services would represent a direct tax on production, contrary to the underlying premise of consumption taxes like the sales tax. Most of the remaining nine percent of “accounting services” which are purchased by consumers are tax preparation services. It would be ironic to target for sales taxation a service consumers only purchase as a result of being compelled to comply with other tax laws.

*Taxing Business Inputs is Administratively Complex and Punishes Small Businesses*

Finally, compliance with a sales tax on services is extremely complicated for businesses large and small, owing to the fact that it is often difficult to determine where, when, and how the services are provided and what services are actually subject to tax. Compliance is particularly burdensome on smaller service providers. Additionally, small and emerging firms often must use outside service-providers that would be taxed (such as external legal counsel or tax-filing services), while larger companies with in-house expertise could avoid taxation for such services as a result of vertical integration, further adding to the outsized small business tax burden.

These are but a few of the reasons that only three states impose taxes generally on professional services, and why no state has successfully implemented a broad-based tax on professional services in more than 50 years. We urge you to set aside the idea of imposing a sales tax on professional services, and, as noted at the outset, would be pleased to talk with you regarding options to align House Bill 373 with principles that promote economic growth and prosperity.

Sincerely,



Joseph R. Crosby  
Executive Director

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<sup>2</sup>Professional Service Alliance, [Accounting is a Business Service and Doesn't Belong in the Sales Tax Base](#), 2019.