

Economic and Tax Policy Pitfalls for Nebraska of “Tax Swap” to Reduce Property Taxes

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The Professional Services Alliance (PSA) exists to educate policymakers regarding the problems with expanding the sales tax base to professional services.

Proposals that have been offered in Nebraska to reduce property taxes by expanding sales taxes - a “tax swap” - pose numerous pitfalls that should be considered. Sales taxation of professional services violates fundamental economic and tax policy principles, is administratively complex, and is politically unworkable.

Taxing Business Inputs Violates Fundamental Tax and Economic Policy Principles

Economists and public finance experts agree that business inputs (business services purchased by other businesses to be used in the production of another good or service) should not be taxed under a 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.

Professional Services are Business Inputs

A significant share of professional services are business inputs. The Council On State Taxation (COST) estimates that forty-four percent (44%) of existing Nebraska sales tax revenues are already derived from taxing business inputs.¹ Taxing professional services will only exacerbate this problem.

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.² 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 for Nebraska to target for sales taxation a service consumers only purchase as a result of being compelled to comply with other tax laws.

¹Council On State Taxation, [The Impact of Imposing Sales Tax on Business Inputs](#), 2019, p. 8.

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

Taxing Professional Services is Administratively Complex and Punishes Small Businesses

Compliance with a sales tax on professional services is extremely complicated for businesses large and small due 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 through vertical integration, further adding to the outsized small business tax burden.

Taxing Professional Services Is Politically Unpopular

Finally, history has proved the political cost of attempting to impose economically damaging, administratively complex taxes on professional services. There is no example of a state successfully broadly expanding its sales tax base to include professional services. Even at the height of the recession, most states looking at a sales tax on professional services rejected the idea as inherently unworkable (including Nebraska, which has considered and rejected similar approaches numerous times).

The most recent notable example of conservative states considering expanding the sales tax base is Utah in 2019³ and West Virginia in 2021.⁴

Lawmakers in Utah attempted to ram through a significant tax “modernization” bill (HB 441) that extended the sales tax to most services, including legal, accounting, engineering, design, IT, consulting, advertising, and veterinary services. Facing large public backlash, sponsors of the bill ultimately decided to completely abandon the idea of taxing professional services. The opposition to HB 441 was so intense, however, that a few months later, Senator Lyle Hillyard, Utah's longest-serving state Senator and a key sponsor of the bill, lost his Republican Party primary. In West Virginia, the Republican House voted unanimously against Republican Governor Jim Justice’s sales tax base expanding tax swap proposal.

Americans for Tax Reform (ATR) recently urged Nebraska lawmakers to reject any proposals that would impose new taxes on families and businesses, specifically calling a tax on professional services as “harmful.”⁵ In a letter to lawmakers, taxpayer champion and ATR President Grover Norquist encouraged lawmakers, striving to boost population growth in Nebraska, to create a “more competitive tax environment - not a harsh new levy on every transaction made across the state.”

³ Professional Service Alliance, [Lessons Learned from Utah](#), 2019.

⁴ Professional Service Alliance, [Lessons Learned from West Virginia](#), 2021.

⁵ Americans for Tax Reform, [Americans for Tax Reform Letter to the Nebraska Senate](#), January 30, 2024.