



Taxation of Architectural Services

Key Points:

- *Taxes on services could be detrimental to the state's economy.*
- *Taxes on services are usually difficult and expensive to administer, both for the business affected and for the government itself.*
- *Taxes on architectural services will reduce already low profit margins of architects, forcing many firms out of business.*
- *Taxes on services place a disproportionate burden on smaller firms, which comprise the majority of the architectural profession.*
- *Prospective clients may seek non-professionals to perform design services, in order to avoid the tax, which may adversely affect the quality of the built environment and public safety.*

Taxation of Architectural Services

AIA Position

The AIA believes taxing architectural services would significantly hurt the design industry by encouraging clients to turn to unlicensed designers for services, seriously eroding protection of the public's health and safety. Taxing architectural services would put the architectural profession at a competitive disadvantage with unlicensed individuals and would hurt small businesses most. The AIA believes taxing architectural services would have an adverse impact on the state's revenue, economy, and public welfare and health.

Action Sought

The AIA urges state legislatures to craft tax legislation that supports the state's economic development objectives through revenue programs that are fair to all businesses.

Explanation and Justification

On the surface, "broadening" the tax base to include professional services seems a simple option for states. But taxing professional services – especially architectural services – makes poor economic sense. Taxing design services would significantly harm the design industry by slashing profit margins, and decreasing the overall amount and quality of design projects. A service tax would place a disproportionate burden on smaller firms because they cannot provide the same services large firms provide internally (e.g., legal, advertising, and accounting services), thereby increasing smaller firms' costs. Small in-state firms confined by the tax lose a competitive advantage to out-of-state firms that are not subject to the tax or multistate firms, which can farm projects to an out-of-state office.

Taxing architectural services would cut into already low profit margins of architectural firms, forcing many firms out of business. This conflicts with the goal of state laws that require licensing of design professionals to protect the health, welfare, and safety of the public. The tax may further adversely affect the quality of the built environment by encouraging reuse of old plans to cut costs, thereby reducing new and innovative building design. Taxing professional services would have an adverse impact on the state's revenue, economy, and public welfare and health. Taxing design services would erode the tax base by not only driving out architectural firms, but also keeping businesses from relocating to the state and expanding within the state. The predicted increased state revenue raised by the tax would be offset by the cost of enforcement.

What America Thinks: A recent nationwide poll of voters (1,001 sample, margin of error +/- 3.1%) conducted January 2009, by The Clarus Research Group, a bipartisan full service survey research firm, indicated that 81% of voters agreed that "state sales tax should NOT be expanded to cover services like legal, medical, advertising, architectural, and accounting services," claiming that this new tax could cause their state to lose businesses and jobs to other places that do not have this type of tax.