



KEY POINTS

- *B&O tax rate is already three times higher for professional services.*
- *The pass through nature of the B&O puts an extra burden on architecture firms.*
- *Sales tax on professional services will make WA firms less competitive.*
- *Sales tax on services will make capital projects more expensive and delay our state's economic recovery.*
- *Sales tax on services will be difficult to implement and costly to the state and firms to administer.*

TAXATION OF PROFESSIONAL SERVICES PLEASE OPPOSE NEW OR EXPANDED TAXES ON ARCHITECTURAL SERVICES

Background

Washington State's tax structure has a significant impact on architectural firms. In today's technological age, owners are unconcerned about where design services are generated, but are interested in where they can be purchased economically. Washington based firms are a net exporter of design services. Exporting architectural and engineering services out of state is becoming increasingly important to successful economic development. Expansion of current taxes or imposition of new taxes would hamper architects' ability to compete nationally and internationally.

State revenues will not recover until construction recovers. Design services lead the construction recovery. Making design and construction more expensive in the private or public sector will delay economic recovery

Increasing B&O Taxes on Professional Services Makes Poor Economic Sense

Architectural firms already pay the highest Business & Occupation (B&O) tax rate of 1.5% on gross revenues, which includes pass through revenue to engineering consultants. Engineering firms in turn pay another 1.5% B&O tax on their gross revenues, including specialty sub-consultants. On complex projects, there may be another layer of specialty consultants. AIA|WA believes the Legislature should adopt a fair and equitable tax policy that would tax each firm only on the proceeds that firm has earned. Increasing the B&O tax rate or applying a surcharge is a step in the wrong direction.

The service sector of Washington has traditionally paid a higher rate than other sectors; now, it is paying three times the rate of other sectors. The B&O Tax, as it is currently imposed, is onerous for design firms practicing in our state. Design services no longer need to be tied to place, and increasing the tax burden on the service sector may bring unfortunate yet predictable results – architectural firms relocating out of state. Large multi-state firms already have the option to outsource projects to offices in other states; small and medium firms cannot.

Applying Sales Tax to Professional Services Has Unintended Consequences

There has been more discussion lately about imposing a sales tax on professional services. A sales tax on design services is more complex than applying a tax to the sale of widgets, and has potentially damaging consequences that must be considered.

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Sales tax is destination based. Firms with offices and employees in more than one location working on a single project in another location (or even multiple locations) for an owner at yet another location make a destination-based tax very difficult to administer for design services. In the case of architectural services, the "destination" could be any number of locations including the design firm, the client's location or the project location. Basing the tax on the project location would make the most sense. But, the final location may not be known at the time the initial services are performed, there may be multiple locations, or it may not be relevant for some kinds of architectural studies and professional consultations. The cost and complexity of administering a sales tax on services will be significant both for the state and for the architectural firms.

Washington architectural firms would be at a severe competitive disadvantage to out of state firms if the sales tax were collected based on location of the architectural office. As a pass-through tax, clients would be loathe to engage a Washington based firm knowing there would be an 8-10% sales tax on top of the basic fee. Sales taxes will increase the total cost of design services, and the added cost will be paid by clients and/or users of capital projects. Extending the sales tax to design services will reduce the buying capacity of every public and private capital budget, hitting school districts and higher education institutions in the midst of long term capital projects particularly hard.

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ON ARCHITECTURAL SERVICES**