CBAER

Center for Business Analytics and Economic Research

GEORGIA SOUTHERN UNIVERSITY

Examination of the Sales Tax Exemption on the Professional, Scientific, and Technical Services Industry

Prepared for

Georgia Department of Audits and Accounts

Prepared by

Center for Business Analytics and Economic Research

Georgia Southern University

December 13, 2024

Examination of the Sales Tax Exemption on the Professional, Scientific, and Technical Services Industry

Prepared by the
Center for Business Analytics and Economic Research
Georgia Southern University

Prepared for the
Georgia Department of Audits and Accounts

Authors
Benjamin McKay
Dr. Cary Christian

The Center for Business Analytics and Economic Research (CBAER) of the Business Innovation Group (BIG) in the Office of Research at Georgia Southern University was engaged to conduct a study by the Georgia Department of Audits and Accounts.

This page was intentionally left blank.

.

Executive Summary

This report evaluates the economic and fiscal impact of the sales and use tax exemption for the Professional, Scientific, and Technical Services Industry (NAICS 54) in Georgia. These industries include professions such as legal services, accounting, engineering, scientific research, and veterinary services, all of which are currently exempt from direct sales taxes in the state. Commissioned by the Department of Audits and Accounts (DOAA) under the authority granted by the Tax Expenditures Transparency Act of 2024, the Center for Business Analytics and Economic Research (CBAER) at Georgia Southern University prepared the report. It examines the impact of the sales and use exemption by analyzing the difference between the taxable sales under current law and the effect of ending the sales tax exemption on all sales in the industry.

From an analytical standpoint, the exemption currently contributes to the narrowing sales tax base. Georgia's sales tax base has traditionally relied on the taxation of goods rather than services. Over time, this approach has narrowed the tax base as consumer spending has increasingly shifted toward services. For instance, consumers once purchased physical media such as CDs or records; nontaxable streaming services have largely replaced these.

These sales tax exemptions can also protect taxpayers from tax pyramiding. Taxes are generally intended to apply only at the final point of consumption. However, taxing business-to-business transactions risks creating a cumulative tax burden, where taxes are applied at multiple stages of production or service delivery, exceeding the maximum tax rate specified. For example, in the manufacturing sector, raw materials are exempted from taxation to avoid cascading taxes that would inflate the final price for consumers. Without similar protections for professional services, imposing a sales tax could lead to increased costs being passed to end users, undermining the policy's intent.

Based on this information, CBAER investigated how other states levied sales taxes in professional services industries. Forty forty-five (45) states in the United States have a sales tax. Of those, only three (3) states, Hawaii, New Mexico, and South Dakota, start with the framework that all service industries are taxable unless stated exceptions apply. The remaining forty-two (42) states have a framework that exempts all professional services except those specifically selected and listed as taxable services. While the taxation of professional services is not consistent throughout the U.S., one common feature of states that levy sales taxes in the professional services industry is that sales taxes are limited in scope and focus on specific segments of the industry. The most commonly taxed services are photography and videography, graphic design, and interior design.

The sales tax exemption was analyzed as a five-year average from 2020 – 2024. The average cost of the exemption was $2.71 billion to the state of Georgia. CBAER estimated that if this tax was collected, the reduced economic activity related to the sales tax collection would be $2.50

billion. Economic activity linked to the exemption in the industry generates $108.86 million in other state taxes. It also supports $74.09 million in taxes collected by local governments in Georgia. Further, by not collecting this sales tax, the average return on this investment is 0.25 in Georgia. This means that for every $1 of net forgone revenue, the economy receives $0.25 in economic activity.

The economic impact of the sales tax exemption is $2.50 billion in direct industry revenue (output), which increases to $5.28 billion in output impact when indirect and induced output are considered. Value added, the closest variable to gross domestic product in IMPLAN, was $1.55 billion in direct value added and $3.13 billion in total. This spending supports 13,080 direct jobs, which expands to 28,230 jobs in total, including indirect and induced effects on employment.

CBAER also examined the alternative use that assumes the sales tax is collected and becomes part of the general fund for the state government. This change would lead to a total output impact of $4.22 billion. The value-added impact would be $1.24 billion direct and $2.503 billion in total. This spending would support 10,464 direct state workers and 22,584 in total after adding indirect and induced impacts. These workers and supporting businesses would generate $43.94 million in state tax revenue and $42.07 million in local government tax collection in Georgia.

Overall, the professional services sales tax exemption generates a higher return for the economy than collecting the tax and spending it on the alternate use. The analysis found that the existing sales tax exemption is consistent with how other states tax the professional service industry.

Table of Contents

This page was intentionally left blank.

Tax Provision and Report Overview

The report focuses on the sales and use tax exemption of the Professional, Scientific, and Technical Services (PS&TS) Industry, as defined by the North American Industry Classification System (NAICS 54), in Georgia. The report examines the current sales tax exemption and the related economic and fiscal effects of this policy. The PS & TS Industry is being taxed through the income tax system either as corporate entities or partnerships and is only part of the sales tax system as individual operations link to tangible personal property, which means the industry is exempt from sales taxes in practice.[1]

Georgia has a limited tax on services, which includes utilities, transportation, rental or leasing of tangible personal property, transient accommodation, admission, and games and amusements. Other services not directly producing tangible personal property are not subject to direct sales taxes under Georgia law, notably exempting businesses in the PS & TS Industry. The exemption of services from sales taxes is a long-standing practice in the state of Georgia.[2]

This report is designed to analyze the economic and fiscal impact of the sales tax exemption on the PS & TS Industry. Although no code section is attached to this exemption, the Center for Business Analytics and Economic Research (CBAER) follows the established format for analyses conducted under the Tax Expenditures Transparency Act of 2024, also referred to as SB 366. Under SB 366, legislative leaders select the tax expenditures to be analyzed, and the Georgia Department of Audits and Accounts (DOAA) manages the process.

CBAER starts the report by examining the PS & TS Industry to analyze the sales tax exemption. This background information focuses on the types of business activities in the industry and the current economic growth trend present in Georgia over the past five years. Next, CBAER conducted a tax comparison analysis, which discusses how other states tax the PS & TS Industry. As part of this section, the team outlines the theoretical basis for sales taxes. It also includes examples of the different methods states take to tax these services.

Building on this information, the research team examines the economic impact of the sales tax exemption. In addition, this section includes an alternative use and 'but for' analysis that highlights what would happen if the sales tax were collected and defines challenges linked to estimating the economic impact of the exemption. Next, CBAER performs a fiscal analysis examining the amount of revenue related to the sales tax exemption as it is currently operating. Finally, the analysis concludes with a summary of the findings.

---

[1] (n.d.). What is Subject to Sales and Use Tax? Georgia Department of Revenue. Retrieved November 5, 2024, from https://dor.georgia.gov/taxes/sales-use-tax/what-subject-sales-and-use-tax

[2] Lenhart, N. A. (n.d.). Section 1: Georgia Sales and Use Tax Principles. Taxconnex.com. Retrieved October 29, 2024, from https://www.taxconnex.com/hs-fs/hub/45046/file-14118417-pdf/docs/taxconnex_-_georgia_sales_tax_principles.pdf

Tax Provision Background Information

The economy is split into two different sectors: goods-producing and service sectors. The goods production sector includes industries involved in making goods for sale, including manufacturing, construction, and natural resources. The remainder of the economy is made up of the service sector, which includes private sector industries, and public sector industries, which includes federal, state, and local government. The private sector service industry includes retail trade, transportation and utilities, information, financial activities, professional and business services, education and health services, leisure and hospitality, and other services.[3] In 2023, the United States private services sector accounted for 76.8 percent of the gross domestic product.[4] Examples of services are varied and include, but are not limited to, electric power generation, health care services, hotels, restaurants, food services, workout gyms/studios, computer software design, and more. A complete listing of the service sector by NAICS is available in Appendix A.

Building on the overview of the service industry, CBAER next examined how to categorize the sales tax that is being applied to the service industry in a general way. When applying sales taxes to the service sector, approaches vary from state to state. In 41 states and the District of Columbia, services are taxed based on an enumerated list.[5] In these jurisdictions, if a service is not on the list, it is not considered taxable. When analyzing sales taxes for services, it is helpful to organize the sector into separate categories of services, each including different industries. The categories used are listed in the bullet points below.[6]

- Business services (e.g., advertising and consulting)
- Personal services (e.g., cleaning services, haircuts, and fitness classes)
- Professional services (e.g., doctor visits, engineering services, and accounting)
- Services to real property (e.g., repairs, maintenance, and construction)
- Services to tangible personal property (e.g., retail goods, delivery, and installation)

The economic relationships covered by the industries within each category from this bulleted list can involve business-to-business or business-to-consumer transactions.[7] A sales tax can apply to both transactions, although the implications of this application will be discussed in the state comparison section of this report. Following this framework, CBAER examined the economic activities that are a part of the various PS & TS industries.

---

[3] (n.d.). Service-Providing Industries. U.S. Bureau of Labor Statistics. Retrieved October 18, 2024, from https://www.bls.gov/iag/tgs/iag07.htm

[4] JobsEQ, U.S. GDP data as of 2023

[5] Service Taxability by State, Avalara

[6] Walczak, J. (n.d.). Modernizing State Sales Taxes: A Policymaker's Guide. Tax Foundation. Retrieved October 18, 2024, from https://taxfoundation.org/research/all/state/state-sales-tax-reform-guide/

[7] Ibid.

The PS & TS industries cover several different types of business operations. Businesses in this group provide services following a business-to-business model; however, some business-to-consumer transactions are included in this industry. The services in this group often require a higher level of training, and many jobs in these industries require a college degree or higher. In general, services provided by businesses in this group may be described as having a defined scope of work and an endpoint with a deliverable.[8] Using the more detailed 4-digit NAICS codes, there are nine subsectors in the group of industries described herein as PS & TS, which are listed in the bullet points below:[9]

- Legal Services (NAICS 5411),
- Accounting, Tax Preparation, Bookkeeping, and Payroll Services (NAICS 5412),
- Architectural, Engineering and Related Services (NAICS 5413),
- Specialized Design Services (NAICS 5414),
- Computer System Design and Related Services (NAICS 5415),
- Management, Scientific, and Technical Consulting Services (NAICS 5416),
- Scientific Research and Development Services (NAICS 5417),
- Advertising, Public Relations, and Related Services (NAICS 5418), and
- Other Professional, Scientific, and Technical Services (NAICS 5419).

When analyzing the NAICS codes, some can be clearly defined by their title, while others need additional explanation. In this case, there are four industries that the authors felt would benefit from further description in the report, and these include Specialized design services NAICS 5414; Management, Scientific, and Technical Consulting Services NAICS 5416; Scientific Research and Development Services NAICS 5417; and Other Professional, Scientific, and Technical Services NAICS 5419. Each will be defined in this section of the report. The complete definitions of all subsectors used in this report are available in Appendix B.

Specialized design services, NAICS 5414, include interior, industrial, graphics, and other specialized services in the design industries. Next, Management, Scientific, and Technical Consulting Services, NAICS 5416, firms offer consulting services in various areas. This includes advising other businesses, nonprofits, and public sector agencies to manage their operations better. Companies operating in this industry focus on strategic and operational planning, not providing support services.[10]

Scientific Research and Development Services, NAICS 5417, firms focus on conducting many forms of scientific research. The types of research described include agricultural, cancer, biotechnology, and computer software and hardware.

[8]IBISWorld (n.d.). Professional, Scientific and Technical Services in the US. Ibisworld.com. https://my.ibisworld.com/us/en/industry/54/products-and-markets
[9] United States Census Bureau (n.d.). North American Industry Classification System. Census.gov. https://www.census.gov/naics/?input=54&chart=2022&details=54
[10] Ibid

Other Professional, Scientific, and Technical Services, NAICS 5419 covers various business activities, including photography, translating, veterinary medicine, surveying, and property appraisal. These four select subsectors provide a cross-section of the work carried out in the PS & TS industries group, which is the focus of this report. The growth of firms in these subsectors is closely linked to corporate profits and an expanding economy. [11]

CBAER next examined how these growth patterns have influenced the growth of individual PS & TS industries in Georgia. Three variables are used: real gross domestic product, establishments, and employment. The nine subsectors listed previously were used in this analysis over a five-year timeframe between 2019 and 2023 and were inflation-adjusted to 2023 dollars. Looking at the complete professional service industry NAICS 54, the sector increased at an average annual rate of 2.9 percent from $51.94 billion in 2019 to $57.58 in 2023. Similar findings for the nine subsectors are displayed in Table 1.

Table 1: 2019-2023 Annual Georgia Real Gross Regional Product by 4-Digit NAICS Code *

4-Digit NAICS	Series Title	2019	2020	2021	2022	2023
5411	Legal Services	$9,333.28	$9,353.04	$9,653.06	$9,197.76	$9,310.08
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	$5,082.60	$4,876.03	$5,260.92	$5,675.96	$5,679.62
5413	Architectural, Engineering, and Related Services	$6,984.67	$6,789.18	$7,065.18	$7,536.85	$7,912.18
5414	Specialized Design Services	$899.47	$857.42	$911.37	$881.52	$873.18
5415	Computer System Design and Related Services	$12,479.71	$12,481.46	$12,599.66	$13,325.60	$13,551.66
5416	Management, Scientific, and Technical Consulting Services	$9,609.47	$9,393.62	$10,313.59	$11,019.00	$11,532.12
5417	Scientific Research and Development Services	$1,354.04	$1,618.53	$1,734.77	$1,853.72	$1,136.17
5418	Advertising, Public Relations, and Related Services	$3,013.54	$3,133.11	$3,414.05	$3,315.84	$2,915.65
5419	Other Professional, Scientific, and Technical Services	$3,034.22	$3,337.84	$3,404.28	$3,553.90	$3,153.95

Source: JobsEQ, inflation-adjusted 2023 dollars
* $ in millions

Seven of the nine industrial sectors in Georgia have seen an overall increase over the five-year timeframe from 2019 to 2023. The two subsectors that declined were Specialized Design Services, which decreased by 2.9 percent, and Legal Services, which decreased by 0.1 percent over this timeframe. Specialized Design Services were especially impacted by the pandemic and showed year-over-year declines in 2019, 2020, 2022, and 2023. On an average annual basis, Scientific Research and Development Services increased at an annual rate of 11.4 percent,

[11] IBISWorld (n.d.). Professional, Scientific and Technical Services in the US. Ibisworld.com. https://my.ibisworld.com/us/en/industry/54/products-and-markets

followed by Management, Scientific, and Technical Consulting Services at 4.9 percent. Advertising, Public Relations, and Related Services increased by 4.6 percent, and Architectural, Engineering, and Related Services grew by 3.3 percent. The remaining sectors all showed average annual growth over this time but at a slower rate than the highlighted subsectors.

Next, the team examined establishments in Georgia. The U.S. Bureau of Economic Analysis defines establishments as business or industrial units located at a single geographic location. Companies or business enterprises may consist of one or more establishments.[12] Looking at the complete professional service industry NAICS 54, the industry increased at an average annual rate of 11.9 percent from 37,498 in 2019 to 47,188 in 2023. Table 2 provides the trends in establishment development over the past five years.

Table 2: 2019-2023 Annual Georgia Establishments by 4-Digit NAICS Code

4-Digit NAICS	Series Title	2019	2020	2021	2022	2023
5411	Legal Services	6,189	6,487	6,742	6,969	6,942
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	4,682	4,940	5,435	5,576	5,641
5413	Architectural, Engineering, and Related Services	4,133	4,352	4,601	4,476	4,893
5414	Specialized Design Services	1,266	1,359	1,426	1,463	1,493
5415	Computer System Design and Related Services	9,118	9,899	10,665	11,043	11,500
5416	Management, Scientific, and Technical Consulting Services	7,698	8,500	9,115	9,687	10,255
5417	Scientific Research and Development Services	624	709	801	848	970
5418	Advertising, Public Relations, and Related Services	1,634	1,750	1,868	2,021	2,196
5419	Other Professional, Scientific, and Technical Services	2,154	2,314	2,527	2,842	3,298

Source: BLS, QCEW Data

All nine of these subsectors increased between 2019 and 2023. The fastest-growing subsector is Scientific Research and Development Services, which increased at an annual rate of 13.3 percent. Following this increase, the remaining top subsectors are Other professional, Scientific, and Technical Services, which increased by 9.4 percent annually, then Management, Scientific, and Technical Consulting Services at 4.9 percent, and Advertising, Public Relations, and Related Services, which increased by 6.3 percent. Throughout this timeframe, the slowest growing sector, Legal Services, added establishments at a growth rate of 2.7 percent on average, or 173 establishments per year.

CBAER next examined employment for each subsector in the PS & TS industries. Looking at the complete professional service industry NAICS 54, the employment in this industry increased at

[12] *Establishment*. (2018, April 13). U.S. Bureau of Economic Analysis. Retrieved September 25, 2023, from https://www.bea.gov/help/glossary/establishment#:~:text=An%20economic%20unit%E2%80%93business%20or,of%20one%20or%20more%20establishments.

an average annual rate of 17.85 percent from over 282,600 in 2019 to 328,300 in 2023. Computer System Design and Related Services is the largest subsector in the analysis, with 25 percent of the total, which on an individual basis is just over 23,200 more than the Management, Scientific, and Technical Consulting Service subsector, which is the second largest; *see* Table 3 for details.

Table 3: 2019-2023 Annual Georgia Employment by 4-Digit NAICS Code

4-Digit NAICS	Series Title	2019	2020	2021	2022	2023
5411	Legal Services	33,649	33,591	34,930	35,639	36,101
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	35,716	35,935	37,342	39,127	39,692
5413	Architectural, Engineering, and Related Services	42,807	42,726	45,013	48,420	50,395
5414	Specialized Design Services	5,080	4,892	4,988	5,021	4,908
5415	Computer System Design and Related Services	72,920	72,874	77,153	81,623	82,666
5416	Management, Scientific, and Technical Consulting Services	47,408	47,263	51,016	56,353	59,369
5417	Scientific Research and Development Services	6,894	8,519	9,756	10,518	10,945
5418	Advertising, Public Relations, and Related Services	17,615	15,869	15,945	18,385	18,949
5419	Other Professional, Scientific, and Technical Services	20,523	19,947	21,860	23,585	24,782

Source: BLS, QCEW Data

Eight out of nine subsectors showed an increase between 2019 and 2023. The only subsector that showed a decline was Specialized Design Services, and this decline was 0.1 percent on an average annual basis. The next slowest-growing subsector was Accounting, Tax Preparation, Bookkeeping, and Payroll Services, at a 1.7 percent annual increase. The fastest-growing subsector is Scientific Research and Development Services, which increased by 12.7 percent in employment for the defined timeframe. This top growth was followed by slightly less growth in Management, Scientific, and Technical Consulting Services at 5.6 percent, Architectural, Engineering, and Related Services at 3.9 percent, and Computer System Design at 3.1 percent.

The professional service industry had strong growth in employment and establishments between 2019 and 2023. Additionally, real GDP expanded over this timeframe. The growth was led by the Computer System Design and related services industry and was followed closely by the Management, Scientific, and Technical Consulting Services. Conversely, the two slowest-growing subsectors are Accounting, Tax Preparation, Bookkeeping/Payroll services, and Legal services.

Other State Comparison

There are 45 states that have a statewide sales tax, and the states that do not have a sales tax include Alaska, Delaware, Montana, New Hampshire, and Oregon.[13] This section focuses on the 45 states with a sales tax, and some of the data also includes the District of Columbia and New York City. Each jurisdiction taxes professional services differently; however, CBAER will highlight and summarize how these areas use sales taxes in the professional services industry.

In a sales taxing system, there are two ways that sales taxes can be applied to all services, including professional services. First, taxes are universally applied to all services unless an exemption is specifically imposed. Three states apply this standard: Hawaii, New Mexico, and South Dakota. The second standard applied by states assumes that all services are exempt from sales taxation unless a tax is specifically applied to that individual service under review, which covers the remaining 42 states.[14] The enumerated list provides states with the maximum flexibility to meet local needs. However, this leads to limited consistency in taxing professional services between states.

When states apply a sales tax to part of the PS & TS Industry, many use a tangible personal property taxing standard. For example, an interior designer gives the client an invoice that includes tangible personal property (i.e., furnishing), and their service is combined into one item with the tangible personal property. In that case, the service is subject to sales tax. However, the service is not taxable if the invoice bills the tangible personal property and design service in separate line items. This is the standard that Georgia is currently following when it comes to applying sales taxes to professional services. The only two activities in the PS & TS Industry subject to sales taxes in Georgia are interior design services and photography and videography services. However, the sales tax is only applied when the sale of the service is included in the same line item as the tangible personal property. By following the enumerated list method and using the tangible personal property standard, Georgia does not apply a broad-based sales tax to professional services.

The remainder of this section is split into three subsections. The first section examines the five states contiguous to Georgia: Alabama, Florida, North Carolina, South Carolina, and Tennessee. The second examines how 50 states are taxing professional services and which segments are subject to sales taxes. The data used in this section does include the District of Columbia and New York City. Finally, the third section reviews the theory of how sales taxes are designed to work in ideal conditions.

---

[13] Walczak, J. (n.d.). State Sales Tax Breadth and Reliance, Fiscal Year 2022. Tax Foundation. Retrieved October 25, 2024, from https://taxfoundation.org/data/all/state/sales-tax-revenue-reliance-breadth/#:~:text=In%20fiscal%20year%202022%2C%20state,a%20state%2Dlevel%20sales%20tax

[14] (n.d.). State-by-state guide to charging sales tax on services. Tax Foundation. Retrieved October 25, 2024, from https://www.avalara.com/us/en/learn/whitepapers/service-taxability-by-state.html

Contiguous State Analysis

The contiguous states of Alabama, Florida, North Carolina, South Carolina, and Tennessee follow the model that all professional service industries are exempt unless otherwise enumerated. This means the surrounding region treats the PS & TS industry similarly to the Georgia sales tax system. For example, in Alabama, consulting services are taxable if they are incidental to the sale of tangible personal property. Additionally, fees charged by interior designers in conjunction with tangible personal property sales are taxable in Alabama. To provide additional information on how contiguous states tax the PS & TS Industry, CBAER outlines how photography & videography, and design services/consulting services are subject to sales taxes. These PS & TS Industry segments are the two most commonly taxed among the contiguous states. CBAER has outlined the different approaches in Table 4 to highlight how these states tax these services.

Table 4: Sales Tax Strategies by States Contiguous to Georgia

Photography and Videography	
Alabama	Is taxable in conjunction with the sales of tangible personal property
Florida	Services are taxable if the sale involves the transfer of tangible personal property unless produced, edited, and transferred digitally to the customer.
North Carolina	Services are generally taxable in most formats.
South Carolina	Photographers who operate studios to take portraits and photos are deemed to be engaged in the sale of tangible personal property, and their services are subject to tax. Photofinishing services are not taxable if the service charge is separately stated. Sales of photos are taxable unless they are delivered to the client electronically.
Tennessee	Sales of photos and portraits are taxable. Charges for developing film or for coloring or tinting pictures are not taxable if the charge is separately stated.
Design Services/Consulting Services	
Alabama	Consulting services are taxable if they are incidental to the sale of tangible personal property. Fees charged by interior designers in conjunction with the sales of tangible personal property are taxable even if billed separately to the client.
Florida	Graphic design services are taxable if they are packaged with the sale and delivery of tangible personal property, and interior design coupled with the sale of tangible personal property are taxable whether separately stated or not.
South Carolina	Architectural and engineering services are generally not taxable; sales of reproductions of plans, designs, and specifications are taxable.

Source: Bloomberg BNA, State Tax Portfolios

These states illustrate that taxing some subsectors in the PS & TS Industry is possible. All of these taxes are limited and focused. Although they are somewhat linked to tangible personal property, the connection is not always direct. For example, Alabama and Florida apply sales taxes to interior design regardless of how it is billed.

United States Sales Taxing of Professional Services

As noted previously, professional services in Hawaii, New Mexico, and South Dakota are generally taxable, with few exceptions. The other states follow the same approach as the contiguous states, where professional services are exempt or nontaxable, with a few exceptions for certain services. However, it should be noted that these three states have much smaller professional services sectors than the contiguous states (and most other states), as shown in Table 5.

Table 5: Universal Sales Tax States Versus Contiguous Enumerated Sales Tax States

	State	Firms	Employment	Payroll*
Sales Tax Universally Applied	Hawaii	3,071	23,313	$1.80
	New Mexico	4,244	59,148	$4.82
	South Dakota	1,959	14,653	$0.83
Sales Tax Enumerated List	Alabama	8,657	113,316	$9.45
	Florida	84,535	574,945	$47.81
	Georgia	30,021	308,804	$28.45
	North Carolina	24,644	245,485	$22.20
	South Carolina	10,830	101,511	$7.54
	Tennessee	10,970	129,379	$9.92

Source: Bloomberg BNA, State Tax Portfolios,
*Dollar in Billions

The three taxable states (Hawaii, New Mexico, and South Dakota) have fewer employees than the contiguous states. For example, in New Mexico, total professional service employment is 59,148 jobs, while the southeastern state with the smallest number is South Carolina, with a total employment of 101,511 jobs. With a smaller professional service sector in the universally applied states, it is likely that these industries function somewhat differently than they do in larger states.

Some professional services organizations in Georgia have expressed concerns about using a sales tax in the PS & TS Industry. For example, the Georgia Society of Certified Public Accountants notes concerns about the pyramiding of taxes since most professional services are provided to businesses. They also note the added compliance burdens of sales tax calculations and the potential negative impacts on small businesses.[15]

[15] Cook, Dan (July 11, 2024), Letter from Georgia Society of Certified Public Accountants to the Georgia Department of Audits and Accounts.

Table 6 lists all the services encompassed by NAICS code 54 and provides the number of states that tax a specific service area, the number of states that do not tax a specific service area, and the number of states that levy sales tax on certain enumerated services within a specific service area. In the majority of states, there is no sales tax on professional services, and there is little uniformity in the industries and the tax codes of states that enforce a sales tax on professional services. However, Certain industries, such as photography and videography, are taxed more uniformly.

Table 6: Taxability of Professional Services Across 50 States the District of Columbia and New York City

Professional Service	States Taxing Professional Services	States with no Professional Service Tax	States Taxing Enumerated Professional Services
Generally	3	38	11
Accounting	2	48	2
Administrative	5	43	4
Bookkeeping	4	47	1
Architecture and Engineering	3	44	5
Consulting	2	39	11
Credit Reporting	14	34	4
Electronic Document	9	35	8
Employment and Placement	9	41	2
Graphic Design	6	34	12
Interior Decorating	7	36	9
Legal	2	48	2
Management	5	46	1
Payroll Processing	5	45	2
Photography and Videography	24	9	19
Surveying	5	43	4
Title Search	6	45	1
Transcription and Stenographic	6	38	8

Source: Bloomberg BNA, State Tax Portfolios

Table 6 shows the services that are taxed and are not taxed by the states. CBAER analyzed the 50 states, including New York City and the District of Columbia, which is why the total for each row is 52. Each state chooses which specific services are taxed. An enumerated service is a service that the legislature decides to collect taxes from by individually selecting it from its overall service category. Out of all the professional services, photography and videography are taxed outright in 24 states, and in 19 states, they are enumerated, with only nine states not taxing them at all. This is very high compared to the second most highly taxed professional service, Credit reporting, with 14 states taxing the service. When looking at the rest of the professional services, it becomes apparent that most states do not levy a tax on these services. On average, professional services have seven states that tax them while the rest do not tax them, or there is an enumerated tax.

Table 7 lists the states that levy sales tax on each specific professional service and those that levy sales tax on enumerated services within a specific service area.

Table 7: States that Tax Professional Services and Enumerated Professional Service

Services	States Taxing Professional Services	States Taxing as an Enumerated Professional Service
Generally	Hawaii, New Mexico, South Dakota	Arizona, Arkansas, District of Columbia, Iowa, Massachusetts, Nebraska, New York, New York City, Ohio, Pennsylvania, Texas, Washington
Accounting	New Mexico, South Dakota	Hawaii, Illinois
Administrative	Hawaii, New Mexico, Pennsylvania, South Dakota, West Virginia	Connecticut, Illinois, Kansas, Ohio
Bookkeeping	Hawaii, New Mexico, South Dakota, West Virginia	Illinois
Architecture and Engineering	Hawaii, New Mexico, South Dakota	Arkansas, Iowa, South Carolina, Tennessee, Wisconsin
Consulting	Connecticut, New Mexico, South Dakota	Alabama, District of Columbia, Hawaii, Illinois, Iowa, Nebraska, New York, New York City, North Dakota, Pennsylvania, West Virginia
Credit Reporting	Connecticut, District of Columbia, Hawaii, Maryland, New Jersey, New Mexico, New York City, North Dakota, Pennsylvania, South Carolina, South Dakota, Texas, Washington, West Virginia	Illinois, Indiana, New York, Ohio
Electronic Document	Hawaii, New Jersey, New Mexico, New York, New York City, Ohio, South Dakota, Texas, West Virginia	Arizona, District of Columbia, Illinois, Kansas, Minnesota, Pennsylvania, South Carolina, Washington
Employment and Placement	Connecticut, District of Columbia, Hawaii, Iowa, New Mexico, Ohio, Pennsylvania, South Dakota, West Virginia	Illinois, Washington
Graphic Design	Connecticut, Hawaii, New Mexico, South Dakota, Texas, West Virginia	California, Illinois, Indiana, Kansas, Minnesota, New Jersey, New York, New York City, Ohio, Pennsylvania, Washington, Wisconsin

Continued

Services	*States Taxing Professional Services*	*States Taxing as an Enumerated Professional Service*
Interior Decorating	Hawaii, Iowa, New Mexico, New York, South Carolina, South Dakota, West Virginia	Alabama, Connecticut, Florida, Georgia, Illinois, Kansas, Minnesota, Texas, Wisconsin
Legal	New Mexico, South Dakota	Hawaii, Illinois
Management	Connecticut, Hawaii, New Mexico, South Dakota, West Virginia	Illinois
Payroll Processing	District of Columbia, Hawaii, New Mexico, Ohio, South Dakota	Illinois, Texas
Photography and Videography	Alabama, Arkansas, Connecticut, Hawaii, Iowa, Kansas, Maryland, Michigan, Mississippi, Nebraska, New Jersey, New Mexico, New York, New York City, North Carolina, Ohio, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Vermont, Washington, Wisconsin	Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Maine, Massachusetts, Minnesota, Missouri, North Dakota, Oklahoma, South Carolina, Tennessee, Virginia, West Virginia, Wyoming
Surveying	Hawaii, New Mexico, South Dakota, Texas, West Virginia	Arkansas, Illinois, Wisconsin, Wyoming
Title Search	Hawaii, New Mexico, South Carolina, South Dakota, Texas, West Virginia	Illinois
Transcription and Stenographic	Connecticut, Hawaii, New Mexico, Ohio, Rhode Island, South Dakota	District of Columbia, Florida, Illinois, Kansas, Massachusetts, Minnesota, Pennsylvania, Texas

Source: Bloomberg BNA, State Tax Portfolios

The table above lists all the states that tax professional services by each specific industry. The top 5 states that tax professional services other than Hawaii, New Mexico, South Dakota are: West Virginia, Connecticut, Texas, Ohio, and Pennsylvania.

Sales Tax Theory

State sales tax is a consumption tax applied as a percentage of the retail price of goods and services. It is collected by retailers at the point of sale and transferred to the state, targeting final consumption by placing the tax burden on the end consumer. The primary purpose of the sales tax is to tax only goods or services meant for personal use while providing states with a reliable revenue source.[16] Compared to income tax, sales tax offers stability, as it is tied to consumption patterns rather than fluctuating incomes.[17] This simplicity and ease of administration make it a favored tax type for state governments.

Historically, state sales taxes were limited to tangible goods, typically defined as physical items purchased by consumers under frameworks like the Uniform Commercial Code.[18] However, the scope of sales taxes has expanded in many states to include services, which now form a growing part of the tax bases in modern systems.[19] Services are categorized into business services, personal services, professional services, real property services, and services related to tangible personal property. As discussed previously, states are autonomous and able to create their own tax structure, which leads to different approaches to sales taxes and the taxation of services. States are increasingly taxing digital goods, such as music, streaming services, and online subscriptions, to counteract base erosion. Many states also exempt necessities like groceries, medicine, and medical equipment to reduce the regressive impact on lower-income residents.

Base Erosion

Base erosion refers to the gradual narrowing of the taxable base due to exclusions, exemptions, or economic shifts that render traditional tax structures less effective. For instance, state sales taxes, which primarily target retail-level goods, face challenges from the growing prevalence of services, digital goods, and complex exemptions. Over time, this erodes the share of revenue derived from the sales tax, reducing its effectiveness.[20]

[16] Walczak, Jared, ”Modernizing State Sales Taxes: A Policymakers Guide,” Tax Foundation, September 2024, https://taxfoundation.org/wp-content/uploads/2024/09/FF845.pdf, last accessed November 19, 2024, p. 3-4.
[17] Ibid.
[18] The Uniform Commercial Code, Section 2-105 defines "Goods" to include ”all things (including specially manufactured goods) which are movable at the time of identification to the contract for sale other than the money in which the price is to be paid, investment securities (Article 8) and things in action,“ with some exceptions.
[19] Ibid.
[20] Russo, B. (2005). An efficiency analysis of proposed state and local sales tax reforms. Southern Economic Journal, 72(2), 443-462. https://doi.org/10.1002/j.2325-8012.2005.tb00712.x

Tax Pyramiding

Tax pyramiding occurs when a tax is applied multiple times during production, resulting in a final tax burden that exceeds the statutory rate.[21] This raises the price consumers pay for goods and services. Smaller businesses are disproportionately affected by tax pyramiding, as they often lack the resources to vertically integrate operations and avoid additional taxation.[22] Since sales tax is imposed on consumption rather than production, it typically avoids taxing production inputs, which reduces pyramiding risks.[23] However, the heavier focus on tangible goods and varying state and local tax rates can still contribute to perceived inequities in the tax system, and where tax pyramiding is present, it makes these inequities worse.

The creation of hidden taxes from the final purchaser decreases transparency within the tax system. It can also treat taxpayers differently depending on the production process used by the producer for the same goods/service, which creates an equity issue. In other words, because smaller companies cannot vertically integrate to reduce their tax exposure, their products cost more than the same products from larger businesses.[24]

Taxation of Services

Debates over taxing services often hinge on the nature of the services and their primary users. Services fall under various categories, including professional, scientific, and technical services (Sector 54 NAICS). These services may cater to households, businesses, or both. This sector is the focus of discussion and analysis in this report and includes industries that rely heavily on professional expertise and advanced knowledge to provide services such as legal advice, scientific research, engineering, accounting, management consulting, and computer systems design. This NAICS code sector has relatively narrow inclusion criteria while simultaneously containing many unique services. These services, for example, can range from notarizing to golf course design to art studios.[25]

Additionally, these services can be administered to businesses or individuals, referred to as households.[26] For example, veterinary services within Sector 54 might serve households (e.g., pet hospitals) or businesses (e.g., livestock inspections).[27] Determining those services that tend to be used more by businesses than households and exempting more of those business-related services can help enhance fairness in the system. The following table outlines examples of

[21] *FF845 (1).pdf
[22] See generally CJS Taxation Section 2080.
[23] Walczak, Jared, "Modernizing State Sales Taxes: A Policymakers Guide," the Tax Foundation, September 2024, https://taxfoundation.org/wp-content/uploads/2024/09/FF845.pdf, last accessed November 19, 2024, p. 9.
[24] Cline, Mikesell, Neubig, and Phillips, "Sales Taxation of Business Inputs."
[25] North American Industry Classification System (NAICS) U.S. Census Bureau
[26] Ibid
[27] Ibid

service subcategories within NAICS Sector 54, distinguishing between those serving households, businesses, or both.

Table 8: NAICS Sector 54 Household Versus Business Impact

NAICS Code	Service Sector	Household	Business	Example Services
5411	Legal Services	X	X	Notaries, Law firms and offices, etc.
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	X	X	Bookkeeping, Auditing, Payroll, etc.
5413	Architectural, Engineering, and Related Services	X	X	Many forms of engineering, Building drafting and inspecting, Surveying, etc.
5414	Specialized Design Services	X	X	Interior design, Clothing design, etc.
5415	Computer System Design and Related Services	X	X	Office automation, Software consulting and installation, etc.
5416	Management, Scientific, and Technical Consulting Services		X	Many forms of Consulting, from sales to sanitation, that do not fall within other more specific categories
5417	Scientific Research and Development Services		X	All forms of Research laboratories or services from business to medicine to aerospace
5418	Advertising, Public Relations, and Related Services	X	X	Sign Lettering, Billboard advertisement, etc.
5419	Other Professional, Scientific, and Technical Services	X	X	Photography, Videography, Veterinary, etc.

Source: Mazerov, 2009; NAICS

This table illustrates the diverse range of services and their varying use by households and businesses. Such variation necessitates the importance of equitable tax application across the sector. Since certain NAICS codes primarily impact only businesses, taxing these services too heavily can unfairly affect businesses over households. Over-taxing one subgroup, such as businesses, while exempting another can create imbalances in the taxation structure.

Economic Impact Section

The economic activity linked to the professional service tax exemption has been analyzed in three ways. First, CBAER generated an economic impact analysis based on the difference between the current value of the exemption to the economy and what the value would be if the tax were being collected. The model uses the difference between these two figures to determine the impact of the exemption. The years selected for analysis were 2020 – 2024; however, following the shifting economic conditions, a five-year average was used as the basis for this analysis. Second, the team prepared an alternative use analysis focusing on what would have happened if the exemption had been discontinued and the funds collected had become part of the general fund of the state of Georgia. Third, this section concludes with a but for analysis, which assesses how many benefits related to the economic activity are related to the exemption. It includes a discussion of the elasticity of demand in this industry. Each piece of the overall analysis can be found in each respective sub-section below.

CBAER estimated the input data for this analysis and began by collecting output and gross domestic product data for 2020 – 2024 from the Federal Reserve Bank of Saint Louis Economic Data (FRED). It included the total for all industries and the PS & TS Industry in the United States and Georgia. This collected data served as the outer limit for what is possible when estimating the amount of sales tax exemption and the growth trends over this period. To estimate the tax exemption amount, CBAER used the Georgia Tax Expenditure Report for FY 2025[28] and the output from the FRED data. The tax rate was estimated at 7.38 percent, which includes the state rate of 4 percent, and the remaining 3.38 percent was an average of all local tax collections. The resulting data for this tax exemption is displayed in Table 9, which is part of the Economic Impact Analysis subsection.[29]

This economic impact analysis is generated using IMPLAN, which uses four variables to describe the economic contributions in the analysis: output, gross regional product, labor income, and employment. Each variable represents a different aspect of how this change in sales tax policy would be supported or affect the state economy. The output variable refers to the value of industry production, including net sales and inventory changes estimated using annual production estimators embedded in IMPLAN.[30] Next is the gross regional product, the intermediate impact of which has been removed from the output category. Intermediate goods include goods consumed and services purchased from other industries or imported from outside the target area.[31] The third variable is labor income, including employee compensation and proprietor's income. Included within employee compensation are both employee wages

[28] (n.d.). *Georgia Tax Expenditure Report for FY 2025*. Governor's Office of Planning and Budget. Retrieved December 4, 2024, from https://opb.georgia.gov/budget-information/budget-documents/tax-expenditure-reports
[29] (n.d.). State and Local Sales Tax Rates, 2024. Tax Foundation. Retrieved December 4, 2024, from https://taxfoundation.org/data/all/state/2024-sales-taxes/
[30] IMPLAN, Output, retrieved from implanhelp.zendesk.com/hc/en-us/articles/115009668388-Output.
[31] IMPLAN, Value Added, retrieved from implanhelp.zendesk.com/hc/en-us/articles/115009498847-Value-Added.

and benefits.[32] The final variable is employment, which includes all full-time, part-time, and temporary labor.[33]

Economic Impact Analysis

This section provides an analysis of the economic value of the PS & TS Tax exemption. Using the data information presented at the start of this section and tax activity estimates displayed in Table 9, CBAER estimated the economic contribution of the current tax exemption based on the elasticity of demand for professional services.

Table 9: Taxable Professional Service Economic Activity

Year	Current Taxable Revenue of Professional Services with Exemption	Taxable Revenue of Professional Services without Exemption	Difference in Taxable Revenue between With and Without Exemption	Change Due to Exemption
2020	$58,573.25	$56,411.90	$2,161.35	3.69%
2021	$59,487.11	$57,292.04	$2,195.07	3.69%
2022	$68,089.38	$65,576.88	$2,512.50	3.69%
2023	$75,950.00	$73,147.45	$2,802.55	3.69%
2024	$76,790.00	$73,956.45	$2,833.55	3.69%
Average 2020-2024	$67,777.95	$65,276.94	$2,501.01	3.69%

Source: CBAER Analysis
*all dollars in millions

The difference in the taxable revenue was generated using an estimate of the elasticity of demand in the professional service industry. The PS & TS Industry is inelastic, which means that the service offered by this industry does not change solely due to a change in prices. In other words, an increase of $100 in fees charged to a consumer would only result in a $3.69 reduction in usage. The price elasticity of demand in this industry varies based on the type of service being offered. For example, legal services require a lot of local knowledge, making the price less elastic, while consulting services can be substituted more easily, creating more elasticity. CBAER used -0.5 as the level of inelasticity displayed in Table 9. See the But For section for additional information on how CBAER estimated this elasticity of demand.

Using Table 9, the difference in the taxable revenue column served as the input data for the economic impact analysis. This analysis measures the difference between the current sales tax exemption and the without the exemption condition. Between 2020 and 2024, economic activity connected to the exemption increased at an annual rate of 7.2 percent. This increase is due to growth in industry, recovery from the pandemic, and inflation. To account for these pressures on growth, CBEAR is basing the remainder of the section on the five-year average

[32] IMPLAN, Labor Income, retrieved from implanhelp.zendesk.com/hc/en-us/articles/115009668468-Labor Income.
[33] IMPLAN, Employment, retrieved from implanhelp.zendesk.com/hc/en-us/articles/115009668668-Employment

reported at the end of Table 9. This average reached $67.78 billion throughout the 5-year period. The average state tax on this revenue would be $2.71 billion if the exemption were removed.

The results from the IMPLAN analysis are defined by their direct, indirect, and induced impact in four categories. These categories are total output, value added, labor income, and employment as explained above. Table 10 displays the average difference between the with and without exemption groups using the outlined categories.

Table 10: Average 2020 – 2024 Professional Services Sales Tax Exemption Economic Impact*

Impact	Output	Value Added	Labor Income	Employment
Direct	$2,501.01	$1,548.22	$1,285.64	13,080
Indirect	$1,192.69	$646.42	$417.37	6,511
Induced	$1,584.84	$932.72	$486.99	8,638
Total	$5,278.53	$3,127.35	$2,190.00	28,230

Source: IMPLAN and CBAER Analysis
*Dollars In millions

The potential direct output impact was $2.50 billion, followed by indirect transactions (business-to-business), which reached $1.19 million, and induced (business-to-consumer) transactions of $1.58 billion. When these three transactions are combined, the total economic impact is $5.28 billion. The output impact led to a change in value-added, which reached a direct impact of nearly $1.55 billion and increased to almost $3.13 billion in total, with secondary effects (indirect and induced transactions) included.

This spending also led to changes in linked employment. Direct spending added just 13,080 jobs, which led to 6,511 indirect jobs and 8,638 induced jobs. When these three (3) segments were combined, the total employment impact was 28,230 jobs. Additionally, the jobs included in this total have average compensation packages of just over $77,500 annually. This number is based on the total labor income of $2.19 billion, with the direct category making up 58.7 percent or $1.29 billion.

Alternative Use Analysis

CBAER generated an alternative use analysis that estimated how these funds would be spent if the state were to use them as part of the general fund. In this part of the report, CBAER assumes that the state of Georgia has started collecting the $2.71 billion in average sales taxes discussed previously and uses them as part of the general fund. This spending would have an economic impact on the state of Georgia, similar to the spending in the Economic Impact section. Table 11 displays the findings on the potential impact of this new revenue.

Table 11: Average 2020 – 2024 State Alternate Use Analysis Economic Impact*

Impact	Output	Value Added	Labor Income	Employment
Direct	$2,000.81	$1,238.57	$1,028.51	10,464
Indirect	$954.15	$517.13	$333.89	5,209
Induced	$1,267.87	$746.17	$389.59	6,911
Total	$4,222.83	$2,501.88	$1,752.00	22,584

Source: CBAER Analysis
*Dollars In millions

The economic impact of the nonexempt sales tax funding linked to state government spending would support 10,464 jobs in direct employment and 22,584 total jobs. Additionally, this spending could increase the direct value added at the state level by $1.24 billion in direct spending and $2.50 billion in total after this spending moved through the economy. These jobs would be supported by $1.03 billion in direct labor income, which increases to $1.75 billion in total.

Next, CBAER estimated the total amount of tax revenue supported by the alternative use analysis. Table 12 displays the total tax collection for both state and local governments in Georgia if this scenario is followed.

Table 12: Average 2020 – 2024 Combined State and Local Governments – Alternate Use Analysis Tax Collections Without the Tax Credit *

	State Taxes	Local Taxes
Sales Tax Estimates	$19.40	$24.73
Georgia Income Tax Estimate	$15.16	
Georgia All Other Taxes (estimated at 19% of total GA tax)	$9.38	
Property Taxes		$17.34
Total Tax Estimate	$43.94	$42.07

Source: CBAER Analysis
*Dollars In millions

Using the alternative use analysis, the total state tax collection reached $43.94 million, while local tax collection reached $42.07 million. The revenue is connected to the secondary impact of individuals paying state and local taxes. For revenue collected at the state level, 58.8 percent of payments made were income tax collections. In contrast, sales taxes made up the majority of local government revenue in the analysis.

But For Analysis

The PS & TS Industry faces unique challenges in implementing and collecting a standard sales tax. Its growth is closely tied to corporate profits and economic expansion, as many services in this industry cater primarily to the business-to-business market and require highly specialized expertise.[34] For example, in the accounting, tax preparation, bookkeeping, and payroll services industry, only 9 percent of industry revenue comes from consumers, while 91 percent comes from business and nonprofit services.[35]

The PS & TS industry is generally considered inelastic, meaning demand for its services is relatively unaffected by price changes. Price elasticity of demand measures the responsiveness of the quantity demanded of a good or service to changes in its price. If the absolute value of elasticity is greater than 1, demand is elastic, meaning the quantity demanded is highly responsive to price changes. If it is less than 1, demand is inelastic, indicating low responsiveness to price changes. A value of 1 indicates unitary elasticity, where the percentage change in demand equals the percentage change in price. A value of 0 indicates perfectly inelastic demand, where the quantity demanded remains unchanged regardless of price changes. Importantly, elasticity is always negative for most goods and services since increases in prices will generally result in reduced demand. It would be rare for price increases to fuel increased demand.

Elasticity values of more than 1 signify elastic demand, where the quantity demanded is highly responsive to price changes. Values between –1 and 0 denote inelastic demand, indicating that the quantity demanded is relatively unresponsive to price changes. For PS & TS, demand often remains stable regardless of price fluctuations due to the specialized and relationship-driven nature of these services.[36]

The industry's unique characteristics influence customer choices. Service providers frequently develop long-term relationships with clients, increasing the costs and challenges of switching providers. Additionally, local and industry-specific knowledge, coupled with experience delivering meaningful projects, enhances the value of these services. This differentiation allows multistate and national firms to command higher fees, as they are often perceived as providing superior expertise and reputation compared to smaller providers.[37]

---

[34] IBISWorld (n.d.). Professional, Scientific and Technical Services in the US. Ibisworld.com. https://my.ibisworld.com/us/en/industry/54/products-and-markets

[35] Lenhart, N. A. (n.d.). Accounting is a Business Service and Doesn't Belong in the Sales Tax Base. Professional Services Alliance. Retrieved August 30, 2024, from https://static1.squarespace.com/static/5788d77e197aea9fd0bc5a84/t/5d5c71f8a5f53b0001792a2c/1566489985385/Accounting+Services+Handout+-+updated.pdf

[36] Price Elasticity of Demand: Meaning, Types, and Factors That Impact It

[37] Nanda, A., & Narayandas, D. (2021). *What professional service firms must do to thrive*. Harvard Business Review. https://hbr.org/2021/03/what-professional-service-firms-must-do-to-thrive

Elasticity within the PS & TS Industry varies significantly across service types, categorized by 4-digit NAICS codes. While an overarching elasticity figure for the industry is unavailable, the CBAER used data from related industries to estimate elasticity for specific services. For instance:

- **Computer system design services**: Price elasticity of demand for computer accessories was -0.74 in 2009.[38]
- **Veterinary services**: Elasticity ranged from -0.034 for comparison services to -0.65 for equine services and -0.55 for food animal services in 2012.[39]
- **Regulatory impacts on consumer services**: Elasticity ranged from -0.64 to -0.74 in 2024.[40]

Based on this data, CBAER estimated an average price elasticity of -0.5 for the PS & TS Industry at the two-digit NAICS level. However, variations exist depending on the service type. For example, legal services, which rely heavily on local knowledge, exhibit lower elasticity, whereas consulting services, which are more easily substituted, show higher elasticity. To account for these variations, CBAER adopted a -0.5 inelasticity rate as a representative average across the diverse services within the industry. When this rate was applied to the taxable revenue, the method used by CBAER is consistent with the Compliance Auditing in Georgia Counties and Municipalities standard. This means that the total state and local tax rate is included in the calculation used in this report.

[38] Eisenhauer, J. G., & Principe, K. E. (2009). Price Knowledge and Elasticity. *Journal of Empirical Generalisations in Marketing Science*, *12*(2).
[39] Neill, C. L., & Holcomb, R. B. (2016). Supply and Cross-sector Effects in the Veterinary Medicine Industry. *Southern Agricultural Economics Association (SAEA) Annual Meeting, San Antonio, Texas, 6-9 February 2016*.
[40] Shojaeddini, E., Schreiber, A., Wolverton, A., & Marten, A. (2024). Consumer demand and the economy-wide costs of regulation: Modeling households with empirically estimated flexible functional forms. *Journal of Environmental Economics and Management*. https://doi.org/102972

Fiscal Analysis

The fiscal impact of the PS & TS Industry sales tax exemption is the sum of the forgone sales tax on professional and technical services less the increased sales and local tax collections on the economic activity generated by the exemption. Forgone revenue is calculated for the state only at the state sales tax rate of 4 percent. Table 13 shows the average state and local taxes associated with the economic activity generated by the exemption.

Table 13: Professional Services Sale Tax Exemption
Average Potential Revenue Collection For 2020 - 2024*

Type of Tax	State Impact	Local Impact	Total
Sales Taxes linked economic activity	$39.17	$21.85	$61.02
Personal Income Tax linked economic activity	$57.94		$57.94
Property Taxes linked economic activity		$ 48.22	$48.22
Corporate Profits Tax linked economic activity	$8.49		$8.49
Other Taxes linked economic activity	$3.26	$4.02	$7.27
Total Tax Receipts	$108.86	$74.09	$182.94

Source: IMPLAN and CBAER Analysis
*Dollars In millions

Tax collections associated with economic activity generated by the exemption averaged $108.86 million for the state of Georgia. Local tax collections were also included in this analysis. Across the state of Georgia, local governments added $74.09 million in taxes related to associated economic activity. When state and local taxes are combined, the total tax collection impact is $182.94 million on average for the years 2020 through 2024. The fiscal impact of the exemption on state revenue is provided in Table 14.

Table 14: Fiscal Impact of Exemption*

Year	Forgone State Revenue from Exemption	Increased State and Local Tax Collections	Fiscal Impact
2020	$2,342.93	$158.10	$2,184.83
2021	$2,379.48	$160.56	$2,218.92
2022	$2,723.58	$183.78	$2,539.80
2023	$3,038.00	$205.00	$2,833.00
2024	$3,071.60	$207.27	$2,864.33
Totals	**$13,555.59**	**$914.71**	**$12,640.88**

Source: CBAER Analysis
* Dollars In millions

Based on the fiscal impact reflected in Table 14 and the net contribution to GDP reflected in Table 10, the ROI to the state government with respect to the sales tax exemption for professional services was 24.7% over the five-year period. ROI related to the alternative use of the funds was 19.8% based on the contribution to GDP reflected in Table 11. (The contribution to GDP is the value added in each table).

Summary of Findings and Conclusion

This report examines the sales tax exemption for the Professional, Scientific, and Technical Services Industry in Georgia. Under current law, businesses in the PS & TS Industry have been exempted from collecting and paying state sales taxes. Georgia is among the 42 states that legally exempt most services from sales tax, applying sales taxes only to those services explicitly enumerated in the law. As a result, Georgia's sales tax system is predominantly focused on goods. Georgia currently limits sales tax of services to those connected with tangible personal property and the enumerated list of other services, including utilities, transportation, rental or leasing of tangible personal property, transient accommodation, admission, and games and amusements.

The standard of taxing tangible personal property has been effective for decades. However, the increasing prominence of services in the economy and evolving consumer purchasing habits are eroding the sales tax base. Researchers in this field argue that this shift is not the result of deliberate policy but rather an unintended consequence of economic evolution. For instance, many consumers now use streaming services to watch movies and television shows, replacing the purchase of DVDs. While DVD sales are subject to sales tax, streaming services are not, leading to a loss of potential tax revenue and further shrinking the tax base. One way policymakers have suggested limiting base erosion is to expand sales taxes to services, which can help broaden the tax base, increase revenue, and modernize tax systems to reflect the changes in the economy.[41]

Expanding the sales tax base to include professional services carries significant risks to the theoretical and practical foundations of sales taxation. Sales taxes are traditionally designed to apply only to final consumption. However, taxing professional services could undermine this principle by imposing taxes on intermediate services used in production, a phenomenon known as tax pyramiding. This practice poses challenges for both the economy and the tax system.

Economically, tax pyramiding increases the cost of production by embedding additional expenses into the price of goods and services. These higher costs are ultimately passed on to consumers, who then face a second round of taxation at the point of final sale. This compounding effect results in hidden taxes, eroding the system's transparency and perceived fairness. Consumers typically believe sales taxes are applied solely to the final purchase and do not account for hidden fees absorbed during production.

The sales tax exemption for the PS &TS Industry cost the state of Georgia $2.71 billion in average annual exempted sales tax revenue between 2020 and 2024. If a sales tax on services were implemented, the average cost to the economy is estimated at $2.50 billion in forgone

[41] Walczak, Jared, “Modernizing State Sales Taxes: A Policymakers Guide,” The Tax Foundation, p. 4, 19-20, September 2024, https://taxfoundation.org/research/all/state/state-sales-tax-reform-guide/, last accessed November 17, 2024.

economic activity based on the years 2020 through 2024. CBAER modeled the impact of foregone economic activity and found the total output impact over these years was $5.28 billion in Georgia. This includes $1.19 billion in business-to-business (indirect) and $1.58 billion in business-to-consumer (induced) transactions. The output spending led to $1.55 billion in direct value added, which is closely related to GDP. Once this spending moved through the economy, value added reached $3.13 billion in total. Furthermore, this spending supports 13,080 direct jobs and expands to 28,230 total jobs when indirect and induced employment effects are included.

This impact also influences state and local revenue collections. The segments of the industry impacted by the sales tax exemption are contributing $108.86 million in state taxes associated with the economic activity. On the local level, $74.09 million in tax collection across the state is also linked to the current sales tax policy. By not collecting this sales tax, the average return on this investment is 0.25 in Georgia. This means that for every $1 of net forgone revenue, the economy receives $0.25 in economic activity.

As part of this analysis, CBAER also performed an alternative use analysis that examines what would have happened if $2.71 billion in sales tax revenue had been included as part of the general fund used to fund operations for state government. The total output would have reached $4.22 billion. The impact on value added would have been $1.24 billion direct and $2.50 billion in total. This combined spending would support 10,464 state workers and reach 22,584 in total. The spending by these workers and support businesses would fuel additional new taxes of $43.94 million to the state government and $42.07 million to local governments in Georgia.

Overall, an analysis of other states that tax professional services revealed little uniformity in which services are taxed, with the one commonality being that sales taxes in this sector are typically limited in scope. Further, the report noted that these services are inelastic, meaning that regional knowledge and other non-price related factors influence business spending in this industry. Although there is portability in the professional services industry, local knowledge, and customer relationships are still important assets in many of the businesses included in this industry.

Appendix A: NAICS Service Sectors

2-Digit NAICS	Series Title	Definition
22	Utilities	Activities are generating, transmitting, and/or distributing electricity, gas, steam, and water and removing sewage through a permanent infrastructure of lines, mains, and pipe
42	Wholesale Trade	Activities are selling or arranging for the purchase or sale of goods for resale; capital or durable non consumer goods; and raw and intermediate materials and supplies used in production, and providing services incidental to the sale of the merchandise.
44-45	Retail Trade	Activities are retailing merchandise generally in small quantities to the public and providing services incidental to the sale of the merchandise
48-49	Transportation and Warehousing	Activities are providing transportation of passengers and cargo, warehousing and storing goods, scenic and sightseeing transportation, and supporting these activities.
51	Information	Activities are distributing information and cultural products, providing the means to transmit or distribute these products as data or communications, and processing data
52	Finance and Insurance	Activities involve the creation, liquidation, or change in ownership of financial assets and/or facilitating financial transactions.
53	Real Estate and Rental and Leasing	Activities are renting, leasing, or otherwise allowing the use of tangible or intangible assets and providing related services.
54	Professional, Scientific, and Technical Services	Activities are performing professional, scientific, and technical services for the operations of other organizations.
55	Management of Companies and Enterprises	Activities are the holding of securities of companies and enterprises; for the purpose of owning controlling interest or influencing their management decisions, this includes enterprises of the same company.
56	Administrative and Support and Waste Management and Remediation Services	Activities are performing routine support activities for the day-to-day operations of other organizations.
61	Educational Services	Activities are providing instruction and training in a wide variety of subjects.
62	Health Care and Social Assistance	Activities provide health care and social assistance for individuals
71	Arts, Entertainment, and Recreation	Activities are operating or providing services to meet varied cultural, entertainment, and recreational interests of their patrons
72	Accommodation and Food Services	Activities are providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption.
81	Other Services (except Public Administration)	Activities are providing services not elsewhere specified, including repairs, religious activities, grantmaking, advocacy, laundry, personal care, death care, and other personal services.
92	Public Administration	Activities are administration, management, and oversight of public programs by Federal, State, and local governments.

Source: North American Industry Classification System (NAICS) U.S. Census Bureau

Appendix B: Four-Digit Professional Service NAICS Codes Definitions

4-Digit NAICS	Series Title	Definition
5411	Legal Services	This industry group comprises establishments primarily engaged in offering legal services, such as those offered by offices of lawyers, offices of notaries, title abstract and settlement offices, and paralegal services
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	This industry comprises establishments primarily engaged in providing services, such as auditing accounting records, designing accounting systems, preparing financial statements, developing budgets, preparing tax returns, processing payrolls, bookkeeping, and billing.
5413	Architectural, Engineering, and Related Services	This industry group comprises establishments primarily engaged in architectural, engineering, and related services, such as drafting services, building inspection services, geophysical surveying and mapping services, surveying and mapping (except geophysical) services, and testing services.
5414	Specialized Design Services	This industry group comprises establishments providing specialized design services (except architectural, engineering, and computer systems design).
5415	Computer System Design and Related Services	Are establishments primarily engaged in providing expertise in the field of information. This is by supporting software to meet the needs of a particular customer. Also providing on-site management and operation of clients' computer systems and/or data processing facilities.
5416	Management, Scientific, and Technical Consulting Services	This industry group comprises establishments primarily engaged in providing advice and assistance to businesses and other organizations on management, environmental, scientific, and technical issues
5417	Scientific Research and Development Services	Are establishments engaged in conducting original investigations undertaken on a systematic basis to gain new knowledge (research) and/or the application of research findings. Industries are defined based on the domain of research.
5418	Advertising, Public Relations, and Related Services	This industry group comprises establishments primarily engaged in advertising, public relations, and related services, such as media buying, independent media representation, indoor and outdoor display advertising, direct mail advertising, advertising material distribution services, and other services related to advertising
5419	Other Professional, Scientific, and Technical Services	Industries and establishments are engaged in processes where human capital is the major input. The individual industries are defined based on the expertise and training of the services provider. Most of the industries have production processes that are almost wholly dependent on worker skills. Much of the expertise requires degrees, though not in every case.

Source: North American Industry Classification System (NAICS) U.S. Census Bureau