

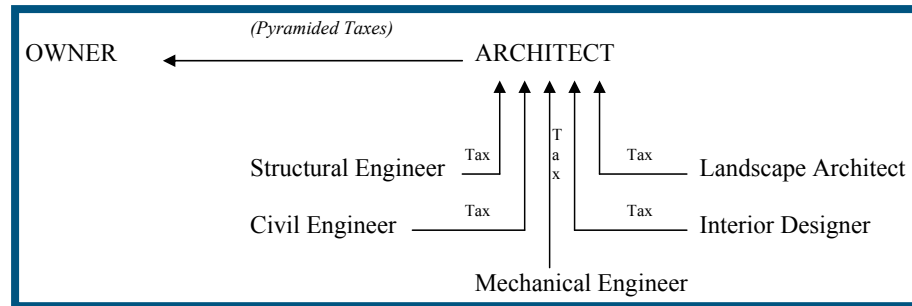
NO Sales Tax on Services

TAXING DESIGN SERVICES IS CONFUSING AND COSTLY – A BAD IDEA

As state officials and design professionals learned in 1987, the taxation of design services is very confusing and costly. Any attempt to promote this idea should be defeated.

Pyramiding of Taxes

Design services are typically provided through a contractual agreement between an architect, as the prime consultant, and the owner and multiple sub-consultant agreements between the architect and a variety of specialists including engineers, landscape architects, interior designers and others. The following diagram illustrates the pyramiding of taxes that can occur by taxing design services - leading to dramatically higher costs for housing, commercial and industrial structures built for Florida homeowners and businesses. Add to this the taxes applicable for blueprints prepared for the architect by a blueprint shop and you have a very costly, confusing sales tax.



In-State vs. Out-of-State Services

Any claim by proponents that application of a sales tax on in-state vs. out-of-state design services is “simple” is totally contradicted by the Department of Revenue’s rules adopted to implement the 1987 tax on services. Those rules proved extremely complicated and universally misunderstood. For example, assume that an in-state corporation hires an in-state architect to perform design services for a commercial office building in Georgia. Under the 1987 rules, the services were taxed if they were not related to a specific parcel of property in Georgia, but, if related to a specific parcel of property, the services were not taxed. For a typical project in Georgia, this meant you could have initial feasibility and programming services which might be taxed, site-specific drawings for the building which would not be taxed, and site-specific

construction administration services which probably would not be taxed. There are literally hundreds of such examples which kept design professionals and the state’s taxing authorities in a constant quandary regarding taxable vs. non-taxable services.

Taxation of Reimbursable Costs

In the delivery of design services, there are always costs incurred by design professionals which are reimbursable by the client. In 1987, these reimbursable costs had to be added to the professional’s fees before application of the tax unless the professional collected monies in advance from the client for direct payment of the costs. In other words, in order to avoid taxation - actually double taxation — of cost items, design professionals had to establish individual escrow accounts for each client and the client had to fund such accounts from which costs were directly paid.

Design/Build Services

One of the design and construction techniques that is frequently offered to homeowners and commercial building owners is a combined design/build service provided by a firm or a combination of firms. The owner contracts with a firm or joint venture to perform both design and construction services. Oftentimes, such services are delivered on a fixed fee arrangement. Again, the experience of owners, design professionals and construction professionals in dealing with the application of Florida’s 1987 sales tax to these services was, universally, BAD.

Conclusion

The AIA Florida encourages you to carefully review this state’s own history in taxing design professional’s services. The 1987 services tax was a nightmare for architects and other design professionals, their clients - as well as regulators. The tax increased infrastructure costs throughout Florida (“taxing” our own citizens) while not producing any meaningful revenues from outside the state.

The proposed tax is, in essence, a tax on labor. It will jeopardize the ability of small architectural firms to compete due to the fact that such firms utilize outside (vs. in-house) engineers, etc., and will be taxed for such services while larger competitors may avoid these taxes. Furthermore, the “cost” of regulatory compliance is an increased overhead cost that most small firms simply cannot afford.

The architects of Florida ask you not to repeat the 1987 mistake.

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