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**MEMORANDUM**

January 29, 2010

**TO:** Interested Persons  
**FROM:** Fiona Sigalla, Economist, 303 866-3556  
**SUBJECT:** Sales Tax on Services

This memorandum provides information about the sales tax treatment of services in other states. It also includes information on services that currently exempt from the state sales tax exemptions, and would be subject to tax under House Bills 10-1189 through 10-1195.

**Summary**

Traditionally, sales taxes have been levied on goods rather than services. Over the past several decades, the service sector has contributed a growing share of economic output and consumption, and states have broadened their sales tax bases to include more services. Today, nearly every state levies sales tax on some type of service. Colorado applies its state sales tax to fewer services than most states.

Services that are commonly taxed in other states that are not subject to the Colorado state sales tax include: photocopying; admissions; 900 number services; pari-mutuel racing; and downloaded commercial software.

The number of states currently taxing items in House Bills 10-1189 through 10-1195 varies. More than half the states tax fuel for industrial purposes and downloaded software. Three states tax out-of-state retailers with remote affiliates. Data is not currently available for the other sales tax proposals at this time.

When sales taxes began to be first enacted by states nearly a century ago, the tax was levied generally only on the sale of goods. Since that time, however, the service sector has grown rapidly in the U.S. and Colorado. As shown in Chart 1, the service sector contributed just over 65 percent of Colorado economic output in 1963. By 2008, the service sector contributed almost 80 percent of state output.

With the growth of the service sector, the sales tax base has broadened to include some services. Today, nearly every state levies sales tax on some type of service. Some services are widely taxed, such as utilities, repair services, and admissions to entertainment events. Other services tend to not be taxed. Most states do not tax personal and business services, such as lobbying, massage, and radio and television advertising. Certain professional services, such as those of physicians and lawyers, are taxed in only seven states.<sup>1</sup>

It is important to note that this analysis reflects services subject to the Colorado state sales tax only. The tax base for home rule municipalities does not necessarily conform to that of the state's and may include services that are not taxed by the state. For example, some home rule jurisdictions tax cable service but the state does not.

Table 1 lists the number of services taxed by state, according to the Federation of Tax Administrators. In 2007, the most recent year data are available, six states — Hawaii, New Mexico, Washington, South Dakota, Delaware and West Virginia — each taxed over 100 types of services. A gross receipts tax is used in Delaware, Montana, New Mexico, and Washington, and New Hampshire has a consumption tax on certain items. Gross receipts taxes and consumption taxes are similar to sales taxes but are imposed on firms instead of consumers. As shown in Table 1, Oregon and Alaska have no sales tax and levy no sales tax on services. Colorado levies sales tax on just 14 types of services, fewer than 47 other states (and the District of Columbia).

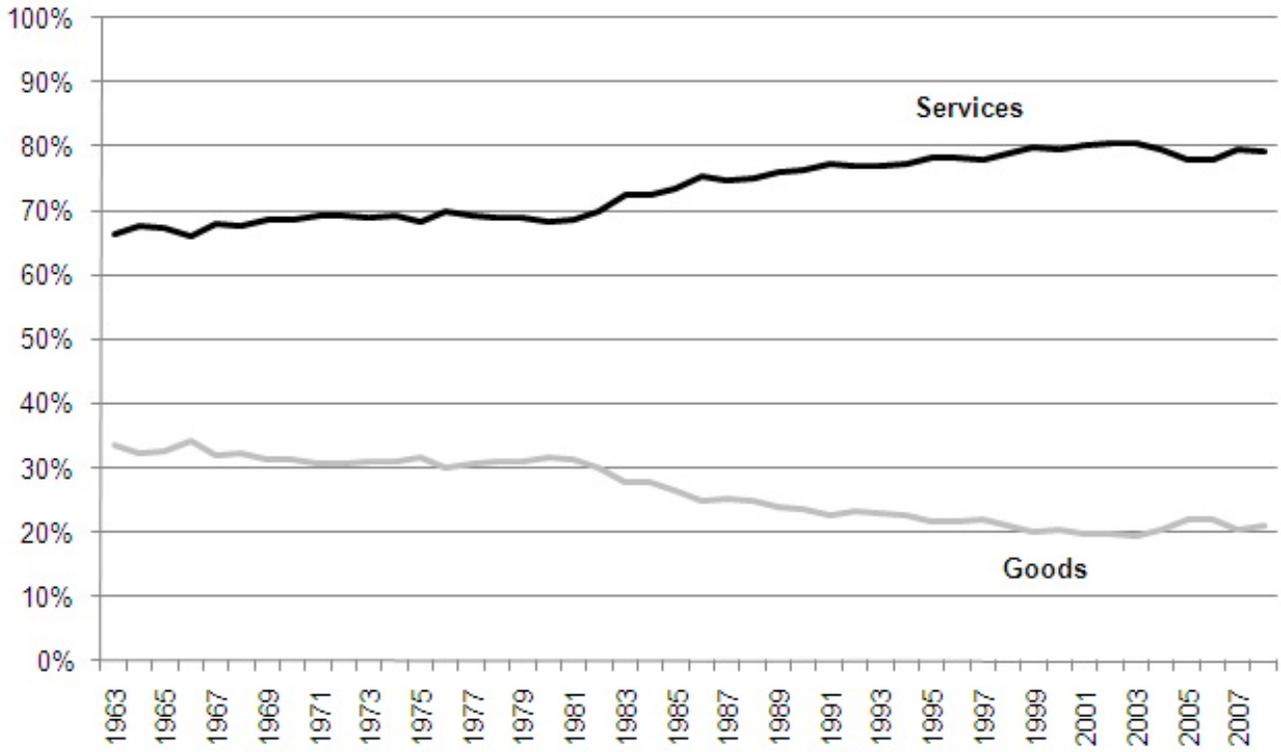
Table 2 lists services most commonly subject to tax that are also taxed in Colorado. Table 3 lists the service items most commonly subject to sales tax in other states, but not taxed in Colorado.

Table 4 lists the items that would be subject to Colorado state sales tax under House Bills 10-1189 through 10-1195. More than half the states already tax fuel for industrial purposes and downloaded software. Three states tax out-of-state retailers with remote affiliates. Data is not currently available on the number of states that tax the items in the other sales tax proposals.

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<sup>1</sup> Data for this memorandum was collected by the Federation of Tax Administrators. The FTA sent a list of 168 services to each state and asked them to list the taxable status of each service.

**Chart 1**  
**Share of Colorado Gross Domestic Product**



**Table 1**  
**Number of Services Subject to State Sales Tax**  
**Total Services Surveyed: 168**

State	Number of Services								
HI	166	NJ	78	UT	63	ID	33	IN	24
NM	164	MS	77	WY	63	VT	33	CA	19
WA	157	WI	77	AZ	60	OK	32	MA	19
SD	152	KS	75	LA	60	ME	30	IL	18
DE	143	AR	73	NY	58	NC	30	MT	18
WV	111	DC	73	PA	56	KY	28	VA	18
IA	93	TN	72	AL	43	RI	28	NV	16
TX	89	OH	70	MD	39	MI	27	CO	14
CT	85	MN	65	GA	36	ND	27	NH	11
NE	78	FL	63	SC	35	MO	26	AK	0
								OR	0

Source: Federation of Tax Administrators

**Table 2**  
**Services Commonly Taxed in Other States and**  
**Subject to Colorado State Sales Tax**

	Number of States Currently Taxing
Hotels, Motels, Lodging Houses	50
Printing	45
Rental of Video Tapes for Home Viewing	45
Photo Finishing	44
Cellular Telephone Services - Residential Use	44
Intrastate Telephone - Industrial Use	43
Cellular Telephone Services - Industrial Use	43
Intrastate Telephone - Residential Use	41
Long Term Automobile Lease	40
Tuxedo Rental	38
Service Contracts Sold at the Time of Sale	32
Welding Labor (Fabrication and Repair)	31
Computer Software - Modifications to Canned Program	29
Trailer Parks - Overnight Rentals	29

*Source: Federation of Tax Administrators*

**Table 3  
Services Commonly Taxed in Other States**

	<b>Number of States Currently Taxing</b>
Photocopying Services	43
Custom Fabrication Labor	38
Other Fuel (Including Heating Oil)--Industrial Use	38
Admission to Professional Sports Events	37
Natural Gas -- Industrial Use	37
Amusement Park Admission & Rides	36
Electricity --Industrial Use	36
Circuses and Fairs -- Admission and Games	34
Commercial Linen Supply	33
Sign Construction and Installation	31
Admission to Cultural Events	31
900 Number Services	29
Pari-Mutuel Racing	29
Computer Software - Downloaded	29
Tire Recapping and Repairing	28
Admissions to Billiard Parlors and Bowling Alleys	27
Interstate Telephone -- Industrial and Residential Use	27
Cable TV Services	26
Custom Processing (On Customer's Property)	26
Taxidermy	26
Auto Service Except Repairs, Incl. Painting & Lube	25
Automotive Rustproofing & Undercoating	25
Direct Satellite TV	24
Computer Software - Custom Programs - Material	24
Repair Labor	24

*Source: Federation of Tax Administrators*

**Table 4**  
**Treatment of House Bills 10-1189 through 10-1195 in Other States**

		Number of States Currently Taxing
Direct Mail		NA
Energy Used for Industrial Purposes:	Electricity	36
	Natural Gas	37
	Other fuel, including heating oil	38
Candy and Soda:	Candy	29
	Soda	NA
Repeal Software Regulation:	Software downloaded	29
	Book downloaded	16
	Music downloaded	16
	Movies/Digital Video Downloaded	17
	Other Electronic Goods Downloaded	15
Out-of-State Retailers:	Affiliate Nexus	3
Nonessential Food Containers		NA
Agricultural Products		NA

*NA = Not Available*