

SERVICE TAXES

~ 2017 Update ~



Commission on Government Forecasting & Accountability

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SERVICE TAXES

2017 UPDATE

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INTRODUCTION

There have been numerous requests of the Commission to examine the potential revenue that could be collected in the State from taxing a myriad of services. The Commission has prepared reports that estimated the potential revenue from taxing services on three separate occasions (2006ⁱ, 2009ⁱⁱ, and 2011ⁱⁱⁱ). These estimates were based on services taxed by states throughout the country. Approximately 168 different services were identified by the “Sales Taxation of Services Survey” that was conducted by the Federation of Tax Administrators^{iv}. This survey used North American Industry Classification System (NAICS) codes to identify which service industries were taxed in each state. The Commission used the survey data to estimate how much additional tax revenue could potentially be derived from taxing those services of the 168 that Illinois didn’t already tax. In the 2011 update to the estimates, potential tax revenue that could be collected ranged from \$4.0 billion to \$8.5 billion per year.

This report will be a continuation of the examination of the taxation of services. Previously, the Commission had estimated what could be collected if all the services that were taxed in the United States were taxed in Illinois. This report will diverge from that approach by examining the service taxed by just the states surrounding Illinois, as those comparisons have dominated most discussions regarding taxation of services within the State.

One challenge the Commission had in estimating the potential revenue from services is that with no actual legislation, statutes, or rules to follow, the estimates were very general. In this service tax report update, the Commission will estimate the potential tax revenue that could be collected if service tax systems similar to those of the surrounding states were implemented in Illinois. This will allow the Commission to better estimate how service taxes might actually be implemented in Illinois. For example, in some states, including Iowa, construction related services are taxable but only for repairs or renovations of already standing property. Brand new construction or new additions to a property are exempt. Under the Commission’s previous methodology, construction related services would have been estimated using all of their service related revenue with no consideration of what type of project was being worked on, due to no actual statutes or rules.

Another change to the methodology is to better identify what the actual tax base will be. Previously, the Commission used revenue data from the Economic Census conducted by the U.S. Census Bureau to estimate the tax base upon which new service taxes would be applied. This revenue data was at a high level with little distinction between products. Using better defined revenue data would allow for more accurately estimating the tax base for which to apply the sales tax rate. Beginning with the 2007 economic census and again in the next economic census, in 2012, revenue data by product line was collected. A report by Michael

Mazero at the Center on Budget and Policy Priorities in February of 2012 outlined a methodology for estimating service tax revenues using this new revenue data by product line^v. This report will utilize a modified version of Mazero's methodology to estimate potential service tax revenues.

The report will consist of three main parts. First, the report begins with a brief examination of the limited number of services that Illinois currently taxes. Secondly, the new service tax estimate methodology will be described. Finally, the service tax revenues estimates will be calculated applying the various service tax systems from surrounding states to the Illinois economy.

SERVICE TAXES IN ILLINOIS

The majority of the service taxes in Illinois come from public utilities. Twelve of the seventeen services identified in the survey by the Federation of Tax Administrators taxed by the State of Illinois were in this category. These twelve services are taxed under three statutes: 1) The Electricity Excise Tax, 2) The Telecommunications (Messages) Excise Tax, and 3) The Natural Gas Revenue Tax.

Other services that are taxed in Illinois include a 6.25% tax on prepaid calling cards, photograph processing, and canned software/modifications to canned software. The Hotel Operators' Occupation Tax Act taxes the gross receipts from hotel or motel rentals. Also, a 5% tax is applied to short term renting of vehicles. Coin-operated amusement and redemption machines are also taxed an annual fee of \$30. In addition to these services, materials used in a repair, or installation of a service, are charged at 6.25%.

An explanation of three statutes relating to public utilities services and the other service taxes in Illinois are examined in greater detail below.

The Electricity Excise Tax - 35 ILCS 640

The Electricity Excise Tax is a tax imposed on the privilege of using electricity purchased for use or consumption. Under current law, electric suppliers pass this tax to the residential customer by adding it to the consumer's electric bill. Nonresidential customers can register as "self-assessing purchasers" and pay the tax directly to the Department of Revenue. State laws exempt electricity used by municipalities to operate public transportation systems they own. The rate for residential customers ranges from 0.33 cents per kilowatt-hour to 0.202 cents per kilowatt-hour depending upon total usage per month. The rate for self-assessing (nonresidential) purchasers is 5.1% of the purchase price. Customers of municipal electric systems and electric cooperatives pay the LESSER of (a) 0.32 cents per kilowatt-hour OR (b) 5% of purchase price.

Revenue from the State's electricity excise tax has been relatively flat over the last decade. The revenue collected from this tax is largely affected by weather and business activity. Due to the taxing structure, what volatility there is in revenue collection is due to consumption fluctuations rather than price fluctuations. General funds revenue from the electricity excise tax has generally ranged between \$385 million and \$400 million. In the last ten years, revenue from this tax has fallen below this level twice. The first occurrence came in FY 2010 when \$375 million was collected and again in FY 2016 when total revenue collected totaled \$370 million.

The Telecommunications (Messages) Excise Tax – 35 ILCS 630

The telecommunications (messages) excise tax, the largest revenue producer of the public utility taxes, is imposed on persons who send or receive interstate and/or intrastate telecommunications. This includes telephone, telegraph, channel, private line, teletypewriter, computer exchange, mobile radio, and telephone and paging services. The tax is applied to the transmission of messages or information between or among points by wire, cable, fiber optics, microwave, radio, laser, satellite, and other methods. The tax is collected from the consumer through the telecommunications provider.

The rate and base of the telecommunications excise tax is simple: 7% of gross charges by businesses for transmitting messages in interstate or intrastate commerce. In FY 2016, \$415 million was sent to the general funds from the Telecommunications Excise Tax. This revenue source has been in decline for the last five years and is expected to continue due to a decline in the number of landlines used by telephone customers.

The Gas Revenue Tax – 35 ILCS 615

The third portion of the public utility tax is the gas revenue tax. This tax is imposed on companies distributing natural gas in Illinois, which can pass it on to customers. All of the natural gas revenue tax is deposited into the General Revenue Fund. The rate and base of the natural gas revenue tax is the LESSER of the following: a) 2.4 cents per therm of gas sold to each customer, OR b) 5% of gross revenue from each customer. All of the revenue collected from this tax is deposited into the General Revenue Fund. In FY 2016, the State collected \$137 million in revenue from this tax.

Non-Utility Related Service Taxes

Under the Use Tax Act (35 ILCS 105/1), Service Use Tax Act (35 ILCS 110/1), Service Occupation Tax Act (35 ILCS 115/1), and Retailers' Occupation Tax Act (35 ILCS 120/1), in most cases a statewide 6.25% tax is applicable to the sales of tangible personal property. Under three circumstances, this could be considered a service.

These situations are the sale of

- 1) prepaid telephone cards or other arrangements allowing a buyer to get telephone service,
- 2) photograph processing, and
- 3) canned software (including downloaded programs or applications) or modifications to canned software.

Currently, no service tax revenue information is available for these services. The revenues collected by the taxes are distributed according to the sales tax distribution method.

The Hotel Operator's Occupation Tax Act – 35 ILCS 145

The Hotel Operator's Occupation Tax Act applies a tax on 5% of 94% of gross receipts from short-term hotel and motel rentals (Section A.). This rental must not be more than 30 consecutive days; otherwise the tax is not applicable. In addition to this tax, a 1% of 94% of gross receipts tax is imposed on permanent residents who stay in excess of 30 consecutive days (Section B). Local taxes are also allowed under the Hotel Operator's Occupation Tax Act including a City of Chicago tax, a tax for the Metropolitan Pier and Exposition Authority (MPEA) tax, and various municipal and county level taxes. The money collected under this act must be spent on tourism.

In FY 2016, the Hotel Operator's Occupation Tax had receipts of \$264 million. Of this \$264 million, \$132 million went to the Build Illinois Fund, \$53 million went to the Illinois Sports Facilities Fund, \$17 million was distributed to the Local Tourism Fund, \$10 million went to the International Tourism Fund and \$5 million was sent to the Chicago Travel Industry Promotion Fund. The remaining \$46 million remained in the General Revenue Fund.

The Automobile Renting Occupation and Use Tax Act – 35 ILCS 155/3 and 4

The Automobile Renting Use Tax applies to the lessee of any automobile, van with capacity of 7-16 passengers, or recreational vehicle, for the privilege of using it on Illinois highways. The tax is 5% of the automobile rental charge. This tax is only applicable for rentals of less than one year in duration. All proceeds from this tax go to the General Revenue Fund. In FY 2016, the State collected \$40 million from this tax. In addition to this State tax, several other local government taxes are imposed in different areas of the State.

Coin-Operated Amusement Device Tax – 35 ILCS 510/1 to 510/16

The tax is imposed on the privilege of operating amusement devices that require insertion of coins, tokens, chips or similar objects. Jukeboxes, pinball machines, kiddie rides, and coin-operated video games are among the many coin-operated amusement devices that are required to display state decals under the Coin-Operated Amusement Device and Redemption Machine Tax Act. Exempt devices include crane machines and vending machines, e.g., candy, soda, cigarette, newspaper. The tax is also imposed on the privilege of operating redemption machines — single-player or multi-player amusement devices involving a game whose purpose is to propel an object into, upon, or against a target.

This tax is somewhat different than the other taxes in that the tax rate on coin-operated amusement devices is on a per device basis instead of being based upon total sales. The annual fee per device is \$30. This fee brings in approximately \$1 to \$2 million per year. As the actual machines are taxed and not the service of providing amusement, sales from these types of activities will be included in the potential tax revenue estimates calculated later in this report.

SERVICE TAX REVENUE ESTIMATE METHODOLOGY

As mentioned previously, the Commission will be using a new methodology to estimate the potential revenue the State could generate from taxing certain services. In the past, the Commission estimated these revenues by using industry level revenue data to estimate potential revenue from new service taxes. In this report, the Commission will use revenue by product line data from the 2012 economic census at the state level. The Commission based its methodology on the process outlined by Michael Mazerov in his paper entitled “Using Economic Census Data to Estimate the Revenue Impact of Taxing Services.” The Commission used a modified version of his methodology to make two estimates (a Broad Based Estimate and a Refined Estimate) for each of the surrounding states service tax systems applied to the Illinois economy.

Below is a description of the Commission’s methodology.

Step 1. Identify the Service Being Proposed for Taxation

To identify the services to be estimated, the Commission examined the services that are taxed in the surrounding states of Indiana, Iowa, Kentucky, Missouri, and Wisconsin. To begin to identify what services that are taxed in each state, the Commission examined the results of the Federation of Tax Administrator’s 2010 Sales Taxation of Services survey of the fifty states. From this starting point, the Commission examined each states legal statutes individually to better understand how each state applies their service taxes and if any changes had occurred since the survey was conducted.

Step 2. Identify the Industries that Provide the Service

Once the services to be taxed were identified, the Commission needed to identify the industries that provide those services. To do this, the Commission used industry descriptions from the North American Industry Classification System (NAICS) and product line descriptions from the North American Product Classification System (NAPCS) to identify who offered the services that would potentially be taxed. Certain services could be offered by multiple industries. For example, vehicle repairs are offered by New Car Dealers which is in NAICS industry 44111 and by Automotive Repair and Maintenance firms which are in industry 8111.

Step 3. Obtain Product Line Revenue Data

The U.S. Census Bureau conducts an economic census every five years.^{vi} The latest available economic census was conducted in 2012. As part of the economic census, product line gross receipts are available for a large portion of the Illinois economy. These product line gross receipts are a significant portion of the tax base to which a sales tax on services would be

applied. The product line data is available through the U.S. Census Bureau's American Factfinder database.^{vii}

Some industries are not available at the state level for Illinois. In those cases, national level data was used to estimate the portion of the total that Illinois was responsible for. To estimate Illinois' portion of an industry's gross receipts of specific product lines, other economic data was used to estimate this amount when available, otherwise, Illinois' portion of the population (4.1%) was used. In this step, the Commission also accounts for the tradition in Illinois of not taxing non-profit organizations by using data for "Establishments subject to federal income tax" instead of for "All establishments". The Commission did this to reflect the fact that the current sales tax exempts sales to government bodies; charitable, religious, and educational organizations; and nonprofit corporations organized to provide recreation to persons 55 and older.

Step 4. Account for Companies with No Employees

The product line data from the economic census only accounts for businesses which have at least one employee. There are a large number of companies where the owner is the only person working at the business. While these types of companies usually make up less than 10% of an industry's total revenue (and often less than 2%-3%), there are some industries where these types of companies make up a much larger portion. For example, approximately 88% of the revenue from companies in the Barber Shops industry in Illinois comes from owner-operated businesses. High rates of these kinds of businesses are seen in the personal care industries and the repair and maintenance industries.

To account for this portion of a service industry, a different data series from the U.S. Census Bureau was used. An annual series of data entitled "Non-employer Statistics" provides economic data for businesses that have no paid employees and are subject to the federal income tax. Total gross receipts data for the non-employer companies was added to the total gross receipts from the economic census to estimate the total gross receipts for the entire industry. Based on this data, a multiplier was applied to the individual product lines to arrive at a grand total for each product line by industry which included both employer and non-employer firms.^{viii}

Step 5. Account for any other Deductions to the Tax Base

Besides situations like charitable organizations, there are other reasons that the tax base should be reduced. In Illinois, tangible personal property that is transferred in the completion of a service is already taxed under the Service Occupation Tax and the Service Use Tax. As such, a portion of the gross sales by product line needs to be excluded from the potential tax base. To account for this, the analyst used his best judgment for industries that should be reduced. The tangible personal property reduction was most often applied in industries related to

Repairs and Maintenance. The amount of the reduction varied by industry but was usually a 50% reduction.

Some reductions were based on individual States service tax systems. Iowa, for example, taxes construction related service industries but not when related to new construction or major additions. As such, the Commission needed to account for this when applying the service tax methodology to Illinois' economy. To account for this, the Commission examined construction related data from the Economic Census to identify the portion of each industries revenues that were related to only construction maintenance and repair, and not, new construction or additions. The utilized data for this deduction was found in the American Factfinder database for Illinois under the following title: Construction: Summary Series: General Summary: Value of Construction Work for Type of Construction by Subsectors and Industries for U.S., Regions, and States: 2012.^{ix}

Step 6. Account for Industry Growth since the last Economic Census

The product line data that forms the basis for the vast majority of the service tax estimates in this report was collected in 2012, and thus, needed to be updated to account for growth in the individual industries. The Commission used data from the Service Annual Survey collected by the U.S. Census bureau to grow the estimated service tax base through 2015, which was the last year available. Longer term growth rates (usually the 10-year average) were used to estimate the individual service tax rates into future years. In some cases, the Service Annual Survey did not have data for certain industries. In those cases, growth rates were estimated based upon industry specific, state-level Gross Domestic Product (GDP) data from the Bureau of Economic Analysis.^x

There were a few services where other data was needed to estimate the potential revenue. One example where other data was needed was the taxation of digital downloads such as movies or music. To estimate this industry, sales data from a trade association was used. These other data sources were also grown based on industry growth rates to estimate what could be potentially collected by taxing them in the future.

Step 7. Convert Tax Base Estimate from Calendar Year to Fiscal Year

To better understand how much new revenue could be brought into the State from taxing services, the Commission needed to convert the estimated annual tax bases to fiscal years which run from July1 through June 30 in Illinois. To do this, the Commission averaged the two annual service tax bases that make up a single fiscal year. For example, to estimate the taxable base for FY 2017, the Commission would average its calendar year 2016 estimate and its calendar 2017 estimate.

Step 8. Apply 5% Tax Rate to Estimated Tax Base

A tax rate of 5% was then applied to estimated tax base. The 5% was used to simulate the 5% tax rate that is associated with the State's portion of the sales and use taxes in Illinois. This rate was used due to a legacy of past proposed legislation using the sales and use taxes as the mechanism to establish a tax on services. Establishing a service tax based on the sales and use taxes may be possible but there may be issues with the uniformity clause of the Illinois Constitution if only certain services are taxed. Establishing a new act under which to tax services would avoid the uniformity problem but would likely add time to the implementation of the tax.

There are other ways a tax on services could be applied. A gross receipts tax could be used to tax services. A gross receipts tax would tax based on all economic activity at each level of the economy. The downside of this type of tax is tax pyramiding. Tax pyramiding is when a tax is applied multiple times in an economic value chain. Generally, economic policy tries to avoid tax pyramiding. In many cases the tax pyramiding associated with gross receipts tax is countered by a lower tax rate. Ohio is an example of this kind tax with its Commercial Activity Tax (CAT). The CAT applies a tax rate of 0.26% on the gross receipts from business activities of all tax payers that have taxable gross receipts of more than \$150,000 per calendar year.

This analysis attempts to avoid the tax pyramiding problem by assuming any proposed legislation would only tax final users. This assumption is similar to the "Sale for Resale" exemption of the Retailer's Occupation Tax. The application of a final user rate is discussed in Step 10.

Step 9. Apply a 67%, 75%, or 90% Compliance Rate (Broad Based Estimate)

When new taxes are introduced, it takes a while before tax payers become fully compliant. To account for this, the Commission reduced the first year of implementation to 67% of the expected total tax received, the second year to 75%, and considered the tax fully implemented in the third year at 90% compliance. The rates were based on the recommendations in Mazerov's paper, discussions with personnel from the National Conference of State Legislatures, and discussions with the Illinois Department of Revenue. The Commission's rates for this step were more conservative than what Mazerov recommended as he suggested a single year reduction at a compliance rate of 67% or 75%.

Time of implementation and compliance rates will vary by industry. Industries that are already heavily involved with the tax system will be quicker to comply and comply at higher rates than tax payers who were previously untaxed. For example, if painting services were taxed, an owner-operated painting business without any employees that doesn't sell products would be less likely to quickly comply to a new service tax. Whereas if digital downloads were taxed,

cable companies and companies like Apple or Amazon would be more likely to have the experience and knowledge to comply with a new service tax.

In discussing service taxes with the Department of Revenue in the past, it was believed that compliance to new service taxes would range from 90% to 95% depending on the industry but there was little to back up this assertion due to a lack of data. Due to this, the Commission applied a 90% compliance rate to all the industries to be conservative. Similarly, the 67% and 75% compliance rates in the first two years were applied to all industries due to a lack of data of who would comply quicker and due to a desire to be conservative.

At this stage in the methodology, the calculated amount is what the Commission considers its Broad-Based Estimate which is the estimated amount a service tax that could be raised if previous tax policy, that being the State's policy of trying to avoid tax pyramiding, was ignored. This estimate was meant to encompass all potential revenue that could be generated regardless of previous tax policy. This could be seen as an upper limit to the range of potential tax revenue raised though this kind of tax policy being more akin to a gross receipts tax; would likely be implemented at a lower tax rate than the 5% used here.

Step 10. Apply the Final User Rate (Refined Estimate)

The second estimate defined the taxable service bases more narrowly. The second method, known as the Refined Estimate, took into account the State's tax policy legacy of not taxing business-to-business transactions. Information from the Bureau of Economic Analysis' national input-output models was used to calculate the percentage of individual industry's outputs that went to final users.^{xi} Final use goods and services are those goods and services used by the final consumer and not used by industries as inputs for intermediate production. These percentages were applied to the first estimate to arrive at a more narrowly focused estimate. Services already taxed by the State of Illinois, such as utilities, hotel rentals, and car rentals, were excluded from both estimates.

SERVICE TAX REVENUE ESTIMATES

Below is a summary table of the results of both the Broad Based Estimates and the Refined Estimates of all five surrounding states examined. The estimates used the methodology described in the previous section and assumed a July 1, 2017 implementation date.

In general, the surrounding states were somewhat similar to Illinois in that they did not tax a large amount of services. In fact, Missouri recently passed a constitutional amendment prohibiting the taxation of any new services at the state or local level. Iowa was the exception in the group. The Iowa service tax system had the broadest base, taxing an additional 81 services. The rest of the examined states taxed less than 15 additional services each.

As one would expect, with such a large base, the Iowa service tax system would bring in the most new tax revenue in Illinois. Taxing the same services as Iowa would bring an additional \$1.2 billion (Refined Estimate) to \$2.9 billion (Broad Based Estimate) per year when fully implemented in FY 2020.

Taxing services like Wisconsin does would provide between \$588 million and \$953 million per year. The service tax systems in Indiana, Kentucky, and Missouri would bring in smaller amounts of revenue. Under the refined estimates, these three states would range from \$179 million to \$281 million per year. Using the broad based estimates, they would range from \$312 million to \$538 million per year.

The tables on the following pages show what additional services are taxed in these other states and how much each service contributed to the broad based and refined estimates.

Table 1. Service Tax Estimate Summary							
Service Tax System	Number of Additional Services Taxed	Broad Based Estimate			Refined Estimate		
		Tax Revenue (\$ Millions)			Tax Revenue (\$ Millions)		
		FY'18	FY'19	FY'20	FY'18	FY'19	FY'20
Iowa	81	\$2,040.4	\$2,351.6	\$2,905.4	\$847.3	\$975.4	\$1,203.7
Indiana	8	\$378.5	\$435.8	\$538.0	\$197.7	\$227.8	\$281.4
Kentucky	6	\$221.5	\$254.1	\$312.4	\$127.2	\$145.6	\$178.6
Missouri	11	\$313.4	\$361.4	\$446.9	\$179.9	\$207.1	\$255.8
Wisconsin	14	\$672.9	\$773.3	\$952.7	\$416.1	\$477.7	\$588.0
Models assume a 5% tax rate, a 7/1/17 implementation date, and a 67%, 75%, and 90% compliance timeline.							
Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users							
Source: CGFA							

Table 2. Iowa Service Tax Estimate

		Broad Based Estimate				Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'16	FY'17	FY'18		FY'16	FY'17	FY'18
701—26.74(422, 423)	Aircraft lease or rental, 60 days or less	\$6.2	\$7.3	\$9.2	59.4%	\$3.7	\$4.4	\$5.5
701—26.21(422)	Aircraft repair, remodeling, or maintenance	\$2.8	\$3.3	\$4.2	59.4%	\$1.7	\$2.0	\$2.5
701—26.3(422)	Alteration and garment repair	\$0.8	\$1.0	\$1.2	71.5%	\$0.6	\$0.7	\$0.8
701—26.4(422)	Armored car services	\$3.6	\$4.1	\$5.1	71.5%	\$2.6	\$3.0	\$3.7
701—26.8(422)	Bank and financial institution service charges	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.9(422)	Barber and beauty services	\$87.4	\$101.0	\$125.2	71.5%	\$62.4	\$72.2	\$89.4
701—26.6(422)	Battery, tire, and allied services	\$2.2	\$2.5	\$3.1	46.9%	\$1.6	\$1.8	\$2.2
701—26.10(422)	Boat repair	\$0.1	\$0.1	\$0.1	53.8%	\$0.1	\$0.1	\$0.1
701—26.56(422)	Cable/pay television fees	\$152.4	\$175.1	\$215.6	58.4%	\$89.0	\$102.3	\$125.9
701—26.57(422)	Camera repair	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.58(422)	Campgrounds	\$0.9	\$1.0	\$1.2	71.4%	\$0.8	\$0.9	\$1.1
701—26.12(422)	Carpentry	\$5.3	\$6.1	\$7.5	57.7%	\$3.1	\$3.5	\$4.3
701—26.22(422)	Carpet and upholstery cleaning and repair	\$6.1	\$7.0	\$8.5	7.4%	\$0.5	\$0.5	\$0.6
701—26.14(422)	Dance school and dance studio	\$3.9	\$4.5	\$5.5	91.5%	\$3.6	\$4.1	\$5.0
701—26.79(422, 423)	Dating services	\$2.0	\$2.3	\$2.8	95.0%	\$1.8	\$2.1	\$2.6
701—26.54(422)	Demolition	\$2.9	\$3.4	\$4.2	57.7%	\$1.7	\$1.9	\$2.4
701—26.15(422)	Dry cleaning, pressing, dyeing, and laundering	\$19.7	\$22.8	\$28.3	71.5%	\$14.1	\$16.3	\$20.2
701—26.16(422)	Electrical and electronic repair and installation	\$24.7	\$28.5	\$35.3	57.7%	\$14.3	\$16.5	\$20.4
701—26.38(422)	Employment and executive search agencies	\$337.5	\$390.0	\$482.9	7.4%	\$25.1	\$28.9	\$35.8
701—26.17(422)	Engraving	\$0.2	\$0.2	\$0.2	71.2%	\$0.1	\$0.1	\$0.2
701—26.18(422,423)	Equipment and tangible personal property rental	\$89.5	\$103.0	\$127.0	Various	\$41.0	\$47.1	\$58.1
701—26.19(422)	Excavating and grading	\$14.8	\$17.0	\$21.0	57.7%	\$8.5	\$9.8	\$12.2
701—26.45(422)	Exterminators	\$11.9	\$13.7	\$16.9	71.5%	\$8.5	\$9.8	\$12.1
701—26.20(422)	Farm implement repair of all kinds	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.21(422)	Flying service and instruction	\$0.7	\$0.8	\$1.0	71.5%	\$0.5	\$0.6	\$0.8
701—26.22	Furniture repair and cleaning	\$1.3	\$1.5	\$1.9	71.5%	\$1.0	\$1.1	\$1.3
701—26.23(422)	Fur storage and repair	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.71(422,423)	Garbage collection and disposal, nonresidential commercial only	\$20.5	\$23.4	\$28.6	16.4%	\$3.4	\$3.8	\$4.7

Table 2. Iowa Service Tax Estimate

Table 2. Iowa Service Tax Estimate								
Broad Based Estimate						Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'16	FY'17	FY'18		FY'16	FY'17	FY'18
701—26.24(422)	Golf and country clubs and all commercial recreation fees, dues, and charges (Includes athletic clubs)	\$42.6	\$48.6	\$59.3	92.0%	\$39.2	\$44.7	\$54.6
701—26.59(422)	Gun repair	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.25(422)	House/building moving	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.26(422)	Household appliance, television, and radio repair	\$10.3	\$11.7	\$14.3	71.5%	\$7.3	\$8.4	\$10.3
701—26.7(422)	Investment counseling	\$648.7	\$748.7	\$926.4	42.0%	\$272.5	\$314.5	\$389.2
701—26.60(422)	Janitorial and building maintenance or cleaning; non-residential only	\$79.4	\$91.8	\$113.7	7.4%	\$5.9	\$6.8	\$8.4
701—26.27(422)	Jewelry and watch repair	\$0.9	\$1.0	\$1.2	71.5%	\$0.6	\$0.7	\$0.9
701—26.61(422) 701—26.62(422) 701—26.66(422)	Landscaping, lawn care, and tree trimming and removal	\$22.1	\$25.5	\$31.6	Various	\$9.1	\$10.5	\$13.0
701—26.80(422,423)	Limousine, including driver	\$15.4	\$18.1	\$22.7	53.1%	\$8.2	\$9.6	\$12.0
701—26.28(422)	Machine operator fees	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.29(422)	Machine repair of all kinds	\$10.3	\$11.8	\$14.4	71.5%	\$7.4	\$8.4	\$10.3
701—26.47(422)	Massage; unless performed by a licensed massage therapist	\$4.7	\$5.5	\$6.8	99.9%	\$4.7	\$5.4	\$6.7
701—26.42(422)	Mini-storage	\$12.9	\$14.8	\$18.3	75.0%	\$9.7	\$11.1	\$13.7
701—26.30(422)	Motor repair	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.68(422)	Motor vehicle, recreational vehicle, and recreational boat rental; when rented without a driver or operator ¹	\$0.0	\$0.0	\$0.0	92.0%	\$0.0	\$0.0	\$0.0
701—26.31(422)	Motorcycle, scooter, and bicycle repair	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.32(422)	Oilers and lubricators on vehicles and machines	\$7.1	\$8.1	\$10.0	71.5%	\$5.1	\$5.8	\$7.1
701—26.33(422)	Office and business machine repair	\$0.2	\$0.2	\$0.2	71.5%	\$0.1	\$0.1	\$0.2
701—26.81(422)	Optional warranty contracts	\$40.7	\$46.5	\$56.8	55.5%	\$22.6	\$25.8	\$31.6
701—26.34(422)	Painting, papering, and interior decorating	\$8.7	\$10.0	\$12.4	57.7%	\$5.0	\$5.8	\$7.2
701—26.35(422)	Parking facilities	\$13.0	\$15.1	\$18.7	71.5%	\$9.3	\$10.8	\$13.4

Table 2. Iowa Service Tax Estimate

		Broad Based Estimate				Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'16	FY'17	FY'18		FY'16	FY'17	FY'18
701—26.63(422)	Pet grooming	\$3.3	\$3.8	\$4.7	71.5%	\$2.3	\$2.7	\$3.4
701—16.51(422,423)	Photography and retouching photographs	\$13.7	\$15.6	\$19.1	55.5%	\$7.6	\$8.7	\$10.6
701—26.36(422)	Pipe fitting	\$42.5	\$49.1	\$60.6	57.7%	\$24.6	\$28.3	\$35.0
701—26.36(422)	Plumbing, including drain cleaning and unplugging toilets, sinks, and sewers	\$15.1	\$17.4	\$21.5	57.7%	\$8.7	\$10.1	\$12.4
701—16.51(422,423)	Printing and binding (excluding items for resale)2	\$7.2	\$8.3	\$10.3	7.4%	\$0.5	\$0.6	\$0.8
701—26.48(422)	Recapping and retreading tires	\$0.9	\$1.0	\$1.2	71.5%	\$0.6	\$0.7	\$0.9
701—26.64(422)	Reflexology	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.13(422)	Roof, shingle, and glass repairs	\$12.4	\$14.3	\$17.6	57.7%	\$7.1	\$8.2	\$10.2
701—26.69(422)	Security and detective services	\$65.9	\$76.1	\$94.2	7.4%	\$4.9	\$5.6	\$7.0
701—26.72(422,423)	Sewage services, nonresidential commercial only	\$2.7	\$3.1	\$3.9	51.6%	\$1.4	\$1.6	\$2.0
701—26.40(422)	Sewing and stitching	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.41(422)	Shoe repair and shoeshine	\$0.2	\$0.3	\$0.3	71.5%	\$0.2	\$0.2	\$0.2
701—26.75(422,423)	Sign construction and installation (billboards)	\$9.4	\$10.9	\$13.5	25.5%	\$2.4	\$2.8	\$3.4
701—26.42(422)	Storage of raw agricultural products	\$1,377.0	\$1,615.5	\$2,031.7	5.0%	\$68.9	\$80.8	\$101.6
701—26.42(422)	Storage of household goods	\$0.4	\$0.5	\$0.6	5.0%	\$0.0	\$0.0	\$0.0
701—26.76(422,423)	Swimming pool cleaning and maintenance	\$2.0	\$2.3	\$2.9	71.5%	\$1.4	\$1.7	\$2.1
701—26.65(422)	Tanning beds or tanning salons	\$2.7	\$3.1	\$3.8	71.5%	\$1.9	\$2.2	\$2.7
701—26.77(422,423)	Taxidermy	\$0.1	\$0.1	\$0.1	71.5%	\$0.1	\$0.1	\$0.1
701—26.43(422,423)	Telephone answering service	\$5.5	\$6.4	\$7.9	7.4%	\$0.4	\$0.5	\$0.6
701—26.44(422)	Test laboratories, except tests on humans and animals	\$25.0	\$28.9	\$35.9	25.5%	\$6.4	\$7.4	\$9.1
701—26.46(422)	Tin and sheet metal repair	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.47(422)	Turkish baths and reducing salons	\$4.5	\$5.2	\$6.4	Various	\$3.2	\$3.7	\$4.6
701—26.5(422)	Vehicle repair	\$89.5	\$102.1	\$124.9	71.5%	\$63.9	\$73.0	\$89.3
701—26.11(422)	Vehicle wash and wax	\$12.8	\$14.6	\$17.8	71.5%	\$9.1	\$10.4	\$12.7
701—26.48(422)	Vulcanizing	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.67(422)	Water conditioning and softening	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Table 2. Iowa Service Tax Estimate

		Broad Based Estimate				Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'16	FY'17	FY'18		FY'16	FY'17	FY'18
701—26.50(422)	Weighing	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.51(422)	Welding	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.52(422)	Well drilling; repair only	\$0.4	\$0.5	\$0.6	57.7%	\$0.2	\$0.3	\$0.4
701—26.37(422)	Wood preparation (for example, stripping, cleaning, sealing) not including sawmills	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.53	Wrapping, packing and packaging of merchandise other than processed meat, fish, fowl and vegetables.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
701—26.55(422)	Wrecker and towing	\$8.4	\$9.7	\$12.0	46.9%	\$3.9	\$4.5	\$5.6
TOTAL		\$2,040.4	\$2,351.6	\$2,905.4	Various	\$847.3	\$975.4	\$1,203.7

The model assumes a 5% tax rate and a 67%, 75%, and 90% compliance timeline.

Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users.

Iowa does not tax services related to new construction or major additions therefore construction related services were reduced to account for this.

Reductions were also made related to materials used in construction and repair services (usually 50%) which are already taxed in Illinois.

¹ This estimate excludes motor vehicle rentals which are already taxed under the Automobile Renting Occupation & Use Taxes

² This estimate is only for reproduction and copying services

Source: CGFA

Table 3. Indiana Service Tax Estimate

Broad Based Estimate									Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)					
		FY'18	FY'19	FY'20		FY'18	FY'19	FY'20			
IC 6-2.5-4-16.2	Aircraft leasing or renting and flight instruction services	\$12.0	\$14.1	\$17.7	Various	\$9.0	\$10.6	\$13.3			
IC 6-2.5-4-11	Cable television service; satellite television or radio service	\$152.4	\$175.1	\$215.6	58.4%	\$89.0	\$102.3	\$125.9			
IC 6-2.5-4-16.4	Digital products ¹	\$26.1	\$30.5	\$38.2	92.0%	\$24.0	\$28.0	\$35.1			
n/a	Landscaping	\$52.4	\$60.5	\$74.9	Various	\$18.8	\$21.7	\$26.9			
IC 6-2.5-4-10	Rental or leasing of personal property	\$91.6	\$105.4	\$130.0	34.8%	\$31.9	\$36.7	\$45.2			
IC 6-2.5-4-4 Version a	Renting or furnishing rooms, lodgings, or other accommodations (less than 30 days) ²	\$3.4	\$4.0	\$4.9	71.4%	\$2.5	\$2.8	\$3.5			
n/a	Service contracts sold at the time of sale of tangible personal property	\$40.6	\$46.4	\$56.8	55.5%	\$22.6	\$25.8	\$31.5			
IC 6-2.5-4-3	Water softening and conditioning business	n/a	n/a	n/a	n/a	n/a	n/a	n/a			
TOTAL		\$378.5	\$435.8	\$538.0	Various	\$197.7	\$227.8	\$281.4			

The model assumes a 5% tax rate and a 67%, 75%, and 90% compliance timeline.

Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users.

¹ The digital products estimate includes subscription service revenue which are not taxed in Indiana

² The majority of this industry's revenue is already taxed under the Hotel Operators' Occupation Tax. This estimate is for additional revenue for services such as RV parks and banquet hall rentals.

Source: CGFA

Table 4. Kentucky Service Tax Estimate

Broad Based Estimate						Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'18	FY'19	FY'20		FY'18	FY'19	FY'20
103 KAR 28:010	Admission and access privileges to amusement, athletic, entertainment, or recreational places or events.	\$101.7	\$116.7	\$143.7	Various	\$69.5	\$79.7	\$97.9
103 KAR 28:051	Aircraft rental (dry lease)	\$0.3	\$0.3	\$0.4	59.4%	\$0.2	\$0.2	\$0.3
103 KAR 28:030	Custom Fabrication	n/a	n/a	n/a	n/a	n/a	n/a	n/a
KRS 139.310	Digital Goods (Includes e-books, music, movies, and streaming services)	\$21.4	\$24.1	\$29.2	92.0%	\$19.7	\$22.2	\$26.9
103 KAR 28:051	Personal property rental	\$91.6	\$105.4	\$130.0	34.8%	\$31.9	\$36.7	\$45.2
103 KAR 28:030	Printing	\$6.5	\$7.5	\$9.1	92.0%	\$6.0	\$6.9	\$8.4
KRS 139.200	Water - Industrial Use	na/	na/	na/	na/	na/	na/	na/
Total		\$221.5	\$254.1	\$312.4	Various	\$127.2	\$145.6	\$178.6
The model assumes a 5% tax rate and a 67%, 75%, and 90% compliance timeline. Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users. Source: CGFA								

Table 5. Missouri Service Tax Estimate

Broad Based Estimate								
Statute		Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'18	FY'19	FY'20		FY'18	FY'19	FY'20
144.020.1(2)	Admission and access privileges to athletic, entertainment, or recreational places or events. (Excluding Amusement Parks)	\$98.4	\$113.0	\$139.1	Various	\$66.5	\$76.2	\$93.7
12 CSR 10-103.600	Aircraft rental (dry lease)	\$0.3	\$0.3	\$0.4	59.4%	\$0.2	\$0.2	\$0.3
144.020.1(2)	Amusement park admission and rides	\$4.6	\$5.3	\$6.4	92.0%	\$4.3	\$4.8	\$5.9
144.020.1(2)	Bowling centers	\$3.7	\$4.2	\$5.1	92.0%	\$3.4	\$3.8	\$4.7
144.020.1(2)	Health clubs, tanning parlors, reducing salons	\$34.6	\$39.5	\$48.4	92.0%	\$31.8	\$36.3	\$44.5
144.020.1(7)	Intrastate transportation of persons (excludes taxis and limos)	\$71.5	\$83.8	\$105.4	53.1%	\$38.0	\$44.5	\$55.9
12 CSR 10-103.600	Mandatory gratuities	n/a	n/a	n/a	n/a	n/a	n/a	n/a
12 CSR 10-103.600	Personal property rental ¹	\$91.6	\$105.4	\$130.0	34.8%	\$31.9	\$36.7	\$45.2
12 CSR 10-103.600	Printing	\$6.1	\$6.9	\$8.4	25.5%	\$1.6	\$1.8	\$2.1
144.020.1(6)	Rental of space (weddings, banquets, sports, entertainment, other)	\$0.6	\$0.7	\$0.9	92.0%	\$0.6	\$0.7	\$0.8
144.020.1(6)	Trailer parks - overnight	\$2.0	\$2.3	\$2.9	92.0%	\$1.9	\$2.2	\$2.7
Total		\$313.4	\$361.4	\$446.9	Various	\$179.9	\$207.1	\$255.8

¹ In Missouri, the lease or rental of tangible personal property is subject to sales tax. However, no tax is imposed if the lessor or renter paid sales tax when the property was purchased or if the sale of the property would be exempt from sales and use taxes.

The model assumes a 5% tax rate and a 67%, 75%, and 90% compliance timeline.

Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users

Source: CGFA

Table 6. Wisconsin Service Tax Estimate

Broad Based Estimate						Refined Estimate		
Statute	Service	Tax Revenue (\$ Millions)			Final Use Rate	Tax Revenue (\$ Millions)		
		FY'18	FY'19	FY'20		FY'18	FY'19	FY'20
Tax 11.65	Admission and access privileges to amusement, athletic, entertainment, or recreational places or events.	\$101.7	\$116.7	\$143.7	Various	\$69.5	\$79.7	\$97.9
Tax 11.52	Access or use of amusement devices	\$5.0	\$5.7	\$6.9	92.0%	\$4.6	\$5.2	\$6.4
Tax 11.85	Boat docking and storage	\$6.5	\$7.7	\$9.6	Various	\$4.0	\$4.6	\$5.8
77.52(2)(a)12.	Cable television services	\$152.4	\$175.1	\$215.6	58.4%	\$89.0	\$102.3	\$125.9
Tax 11.27(3)	Contracts for future performance of services ¹	\$20.3	\$23.2	\$28.4	55.5%	\$11.3	\$12.9	\$15.8
Tax 11.66(2)	Internet access	\$106.6	\$122.5	\$150.9	58.4%	\$62.3	\$71.6	\$88.1
Publication 210	Landscaping and lawn maintenance services	\$52.4	\$60.5	\$74.9	Various	\$18.8	\$21.7	\$26.9
Tax 11.72	Laundry and dry cleaning services	\$40.6	\$47.0	\$58.2	71.5%	\$29.0	\$33.6	\$41.6
11.49 and Tax 1	Parking Services for motor vehicles and aircraft (Vehicle portion only) ²	\$2.0	\$2.3	\$2.9	71.4%	\$1.4	\$1.6	\$2.0
Tax 11.47	Photographic Services (Photoprocessing portion already taxed under sales tax)	\$14.2	\$16.4	\$20.4	71.5%	\$10.1	\$11.7	\$14.6
11.38 and Tax 1	Producing, fabricating and printing	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tax 11.68	Repair and service of tangible personal property	\$154.6	\$176.5	\$216.0	71.5%	\$110.6	\$126.2	\$154.4
Tax 11.66	Telecommunications message services	\$5.9	\$6.8	\$8.4	7.4%	\$0.4	\$0.5	\$0.6
Tax 11.68	Towing and hauling of motor vehicles by a tow truck	\$10.8	\$13.1	\$16.9	46.9%	\$5.1	\$6.1	\$7.9
Total		\$672.9	\$773.3	\$952.7	Various	\$416.1	\$477.7	\$588.0
The model assumes a 5% tax rate and a 67%, 75%, and 90% compliance timeline.								
Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users.								
¹ Wisconsin only taxes service contract work that is performed by the seller of the contract, sub-contracted work is not taxable. The Commission reduced taxable revenue by 50% to account for this.								
² No estimate was calculated for the aircraft parking services portion due to a lack of data								
Source: CGFA								

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BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a not-for-profit bipartisan, joint legislative research commission, that provides the Illinois General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of State debt impact notes on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes research reports each year, a sample of which are listed below. In addition to a "Monthly Briefing", the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Legislative Capital Plan Analysis" examines the State's capital appropriations plan and debt position. "The Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year "Budget Summary"; "Report on the Liabilities of the State Employees' Group Insurance Program"; and "Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program". The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. For a listing of all reports published, visit the Commission's website.

These reports are available from:

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