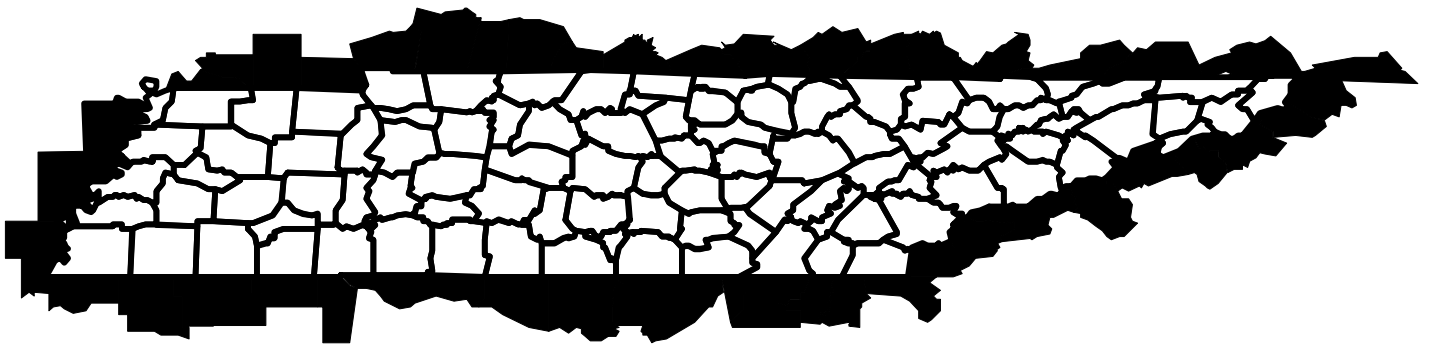


Staff Information Report

Taxation of Services: Tennessee Compared to the Contiguous States



The Tennessee Advisory Commission on
Intergovernmental Relations

January 2000

Taxation of Services: Tennessee Compared to the Contiguous States

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January 2000

TACIR Publication Policy

Staff Information Reports, Staff Briefs, Staff Technical Reports and Staff Working Papers are issued to promote the mission and objectives of the Commission. These reports are intended to share information and research findings relevant to important public policy issues in an attempt to promote wider understanding.

Only reports clearly labeled as “Commission Reports” represent the official position of the Commission.

Findings

- Tennessee presently taxes more services than any of the contiguous border states. See <http://www.taxadmin.org>.
- Tennessee state and county governments levy a higher combined state and local sales tax rates than any of the contiguous state counties. See <http://www.taxadmin.org> for state revenue department links.
- Florida's failed attempts at service taxation in 1987 illustrated the administrative and legal problems of extensively expanding the sales tax base. See Walter Hellerstien's article, "Florida's Sales Tax on Service," in *The National Tax Journal*, Vol. 41, No. 1, March, 1988.
- States such as Florida, Nevada, Texas, and Wyoming rely on general and selective sales tax revenues generated by gambling, tourism, or natural resources unique to each state. New Hampshire and Washington, which also do not have an income tax, rely on some form of a statewide property tax and tax revenue generated by the growth in high-tech industries. See <http://www.taxadmin.org> for sources of revenue.

Executive Summary

Expanding the sales tax base to cover more services is one option that is being considered in addressing Tennessee's structural budget deficit. This paper will compare the services tax base of the contiguous states and provide a profile of the other eight non-income tax states. This paper will also look at the Florida's experience in expanding their sales tax base to cover more services in 1987.

Introduction

All of Tennessee's eight border states have a personal income tax. Because Tennessee does not have a personal income tax, the state is very dependent on sales tax revenues. Because combined state and local option sales tax rate in Tennessee's border counties is higher than the rates in the border counties of the eight contiguous states, tax leakage is a major concern.

Background to the Taxation of Services

In the last decade, many states have either implemented or looked into expanding their sales tax bases to include more services. Mississippi first introduced the sales tax on durable goods in 1932 when the state converted its business tax to a two-percent tax on retail goods.

During the Great Depression, several state and local governments levied a sales tax mainly on retail goods as an expedient way to raise revenues. The sales tax was an attractive option to raise revenues because it had a high yield for

pennies per transaction. The sales tax was also considered easy to collect (Mikesell, 43).

States did not extensively experiment with a sales tax on services until the 1960s. Hawaii, Iowa, New Mexico, and South Dakota were the first states to implement a comprehensive tax on services. Both Hawaii and New Mexico have a state personal income tax. South Dakota does not have a personal income tax. According to the Federation of Taxation Administrator's (FTA) most recent taxation of services survey conducted in 1996, South Dakota taxes 151 different types of services. South Dakota's basic state sales tax rate is four-percent. South Dakota has a local option city and town sales tax ranging from zero to two-percent. In contrast to Tennessee, which has an income tax limited to dividends and bond interest income, Tennessee taxes 82 types of services.

In 1987, Florida instituted a comprehensive tax on services. Most provisions of the legislation were repealed within six months. Like South Dakota and Tennessee, Florida does not have a state personal income tax.

Tennessee's Revenue Sources and Tax Rates

In 1998, the sales tax accounted for 57.6-percent of total state tax collections and selective sales taxes accounted for 18.5-percent of total state tax collections.

Tennessee has increased the state sales tax rate five times since it was enacted in 1947. In comparison to the contiguous states, Tennessee is the most dependent on sales tax revenue. Table 1 illustrates how dependent Tennessee is on sales tax revenue as a percent of revenues generated from taxes.

All eight contiguous states have a personal income tax. Every contiguous state, except for Virginia, derives less than half of their tax collection from their individual income tax.

Tennessee dependence on the sales tax raises concerns about the elasticity of Tennessee's revenue collections. While only Kentucky and North Carolina elasticity index was above 100.0 in 1997, no contiguous state had an elasticity index lower than 90.0. Tennessee's tax elasticity index was 88.5. Furthermore, of the contiguous states where a local option sales tax is levied, Tennessee's border counties have the highest combined sales tax rate (See Table 2 and Appendix 5). This raises the concern about tax leakage.

Table 1
1998 Distribution of State Tax Collections by Source for
Tennessee and the Contiguous States

State	Property	Sales	Selective Sales	Individual Income	Corporate Income	Other
Alabama	2.4%	27.4%	24.8%	31.3%	4.3%	9.8%
Arkansas	0.2%	37.3%	14.5%	34.3%	6.2%	7.5%
Georgia	0.3%	34.5%	8.6%	45.9%	6.4%	4.3%
Kentucky	5.1%	27.8%	17.9%	34.0%	4.7%	10.4%
Mississippi	0.5%	46.8%	19.5%	19.5%	5.6%	8.0%
Missouri	0.2%	32.0%	14.3%	41.0%	4.4%	8.2%
North Carolina	0.0%	23.6%	17.8%	44.2%	7.2%	7.3%
Tennessee	0.0%	57.6%	18.5%	2.3%	8.7%	13.0%
Virginia	0.2%	21.1%	16.0%	51.3%	4.2%	11.7%

Source: Federation of Tax Administrators.

Table 2
Elasticity Index and Sales Tax Rates for the Contiguous States and
Border Counties

	1997 Elasticity Index ¹	National Rank	State Sales Tax Rate	Local Option Sales Tax Rates for Border Counties
Alabama	93.1	38	4.0%	.5% to 4.0%
Arkansas ²	98.9	16	4.625%	1.5% to 2.75%
Georgia	99.0	15	4.0%	2.0% to 3.0%
Kentucky	103.1	4	6.0%	None
Mississippi	94.1	34	7.0%	None
Missouri	93.1	37	4.225%	1.25%
North Carolina	100.1	12	4.0%	2.0%
Tennessee	88.5	46	6.0%	1.0% to 2.75%
Virginia ³	95.2	28	3.5%	1.0%

1. Hal Hovey, *State Policy Reports, Inc.*

2. The general revenue portion of the sales tax is 4.5%.

3. The local option sales tax is administered by the state.

Tax Trends

Nationally, the economy is changing from a manufacturing-based economy to a services-based economy. States have responded to this trend by taxing more services.

In 1997, the FTA reported that 99 services were added to state sales tax bases between 1990 and 1992. Between 1992 and 1996, states expanded their tax base to include 39 additional services. (Fox, 37). States have generally avoided taxing services such as construction, health care, and other professional services because of

strong political opposition (Fox, 37). Instead, states have expanded the sales tax base to services like cable television, pet grooming, amusements, and lawn care. Unlike most personal services, professional services can potentially generate substantial funds (Fox, 37).

Economic Aspects and Implementation of the Sales Tax on Services

Although the sales tax is regressive, extending the sales tax to services could address the problem of what economists refer to as “deadweight loss.” Deadweight loss can result in slower economic growth because a tax only on tangible goods favors services over production. For example, if the repair of a tangible item is not taxed but the purchase of a replacement item is taxed, more consumers will choose to have the property repaired. In response to the greater demand for repair services, more economic resources will be allocated to provide repair services. Furthermore, fewer economic resources will be used to manufacture and distribute new products (Graeser, 2).

One argument against extending the sales tax to more business and professional services is that the tax will raise the cost of doing business. The tax will cause final prices to be higher and if such final products are themselves subject to tax, the result is a “tax on a tax.” This is referred to as “tax pyramiding.” As a service is performed and taxed, the cost of the total tax would be passed on to the consumer.

A second concern is that a sales tax on business services will hurt small businesses that rely on outside professional businesses

for services. Larger firms have the capability of performing those services internally while a small business would have to contract with outside businesses, thus paying a tax on the services rendered. Such a result will discriminate against small businesses.

Equity Issues of the Sales Tax on Services

Another aspect of taxing services is evaluating a base expansion on vertical and horizontal tax equity. Vertical equity refers to the impact of a tax on households at different income levels. Vertical equity is generally categorized as progressive, proportional, or regressive. Horizontal equity refers to the impact of a tax on households of equal well being. Extending the sales tax to services (or more services) can improve horizontal equity.

A consumption-based tax is a regressive tax. For example, a sales tax on groceries would be considered regressive meaning lower income households tend to spend a larger percent of their income on groceries than higher income households. The result that lower income households would pay more in taxes relative to their income than higher income households. Taxes on income are considered to be progressive (if progressive rates are applied) or proportional.

A progressive tax is a tax with effective rates that are higher for families with higher incomes than they are for families with lower incomes. A proportional tax is a tax with effective rates that do not change across families with different earnings.

The vertical equity of a sales tax can be improved by adding professional services to the sales tax base. This would reduce the regressivity of the sales tax since high-income households tend to consume relatively more of certain types of professional services.

Administering a Sales Tax on Services

In implementing a sales tax on services, the legal issues and the ability to administer the collection are areas of concern. Iowa, which introduced a sales tax on services in 1967, expanded the sales tax base to include fifty enumerated items. The Iowa Department of Revenue and Finance then added sixty regulations to clarify the extension of the sales tax. Fourteen of those new regulations were overruled by the state's Attorney General (Fox and Murray, 31).

When Florida extended the sales tax to include legal services, there was a concern that such a tax may burden an individual's right to legal counsel. There were also questions about the service tax being levied on advertising. Opponents of the new tax law argued that such a tax could limit an individual's right to free speech (Fox and Murray, 31). Furthermore, concerns about the legality of the apportionment rules that applied to activities both in-state and out-state hampered Florida's attempt to enforce the new tax laws (Fox and Murray, 31).

A second problem with administering a services sales tax is registering new business entities and processing an increased number of returns (Graeser, 16). With an increased number of returns, auditing, storage, collection, and automation costs will rise (Graeser, 16). In Iowa, the number of vendors registering with the Department of Revenue and Finance increased by 60-percent. The Florida Department of Revenue added 240

new positions to handle the administrative demands. The department budgeted \$6 million for administrative costs which resulted in an incremental cost of \$43 per additional vendor (Fox and Murray, 32).

Florida's Sales Tax on Services

Prior to the 1987 legislative session, Florida had made few changes to its state sales tax. During the 1980s, Florida came under pressure to expand the tax rate as a way to respond to the state's population growth. In 1986, the State Comprehensive Plan Committee cited that since 1980, Florida's population had grown by 325,960 new residents each year (Hellerstein, 2). The committee also noted that the state had a \$52.9 billion backlog of infrastructure needs that was attributed to the population growth (Francis, 8-3).

The tax was broadened in 1987 to include most services in the state. The tax legislation included services such as legal, accounting, and construction. The sale of the service was only taxable if the service was sold in-state, or if the service was sold out of state but used in the state and not subject to taxation in another state. Florida exempted services purchased in the state for use out of state. The new tax law also required apportionment. If a service was being used in Florida and in another state, Florida would tax only the portion of the service being performed in the state.

The Contiguous States Sales Tax on Services

Table 3 shows that Tennessee taxes more services than the contiguous states. Mississippi is the only other state that taxes more than 80 services.

Table 3
Number of Services Taxed by Tennessee
and the Contiguous States

	Taxed	Exempt	Total
Alabama	42	132	174
Arkansas	76	98	174
Georgia	45	129	174
Kentucky	35	139	174
Mississippi	81	93	174
Missouri	39	135	174
North Carolina	40	134	174
Tennessee	82	92	174
Virginia	30	144	174

Source: *Federation of Tax Administrators.*

Mississippi, which is second to Tennessee in percent of revenue collected by sales and selective sales taxes, has a higher state sales tax rate. The state rate in Mississippi is seven-percent, but Mississippi does not have a local option sales tax. Tennessee's local option sales tax rates range from one-percent to 2.75-percent, making the total sales tax rate seven-percent to 8.75-percent. No Tennessee county that borders Mississippi has a combined sales tax that is less than 7-percent. Overall, no other border state county has a higher combined state and local option sales tax rate than Tennessee's border counties. The disparity between the sales tax rates raises the concern of Tennesseans purchasing goods and services in border states like Mississippi (See Appendix 5).

Non-Income Tax States

The FTA reported that of the eight other states that do not have a state personal income tax on earned income. These states are: Alaska, Florida, Nevada, New Hampshire, and Wyoming tax fewer services than Tennessee.

Alaska predominately relies on the severance tax on oil and gas. In 1998, Alaska collected \$577.8 million in oil and gas severance taxes. The severance tax consisted of 62.8-percent of total state revenue. Alaska does not have a statewide sales tax. According to the US Census Bureau, Alaska spends more on government and collects more in taxes per capita than any other state. The main reason for this is that Alaska state government provides services that in most states are provided by local governments. Census figures show that states paid about half of all elementary, secondary and higher education costs in 1996, with county and city governments paying the rest. In Alaska, the state's share was closer to 70-percent. In natural resources and parks management, the Alaska treasury bore 86-percent of the cost. The average of all states is about half that amount (See *Fairbanks Daily News-Minor*, September 7-13, 1999).

In September 1998, Governor Tony Knowles (D) supported an initiative to use the state's Permanent Fund earnings to close the state's \$1 billion budget gap. When facing revenue shortfalls in the past, Alaska cut state services and sold off public lands. Voters rejected using Permanent Fund earnings in a nonbinding referendum. Since then, the budget gap has decreased to \$464 million due to an increase in oil prices. For fiscal year 2000, the governor cut \$54 million in general fund expenditures, decreased general fund spending by 2.3-percent from fiscal year 1999, and used earnings from the Constitutional Budget Reserve Fund to close the budget gap.

Florida's general and selective sales tax yielded 75.2-percent of total state revenue in 1998. Florida had the fifth highest total per capita sales tax collection among the 50 states while Tennessee was tenth. The state

sales tax rate in Florida is six-percent, but Florida's local option sales tax ranges from zero to two-percent.

The state also significantly benefits from tourism. For state fiscal year 1998, Florida had a \$42.7 billion tax base for tourism and recreational categories. In state fiscal year 1999, Florida had a taxable base of \$45.1 billion for tourism and recreational categories. The taxable base also includes purchases made by Floridians. Florida's state constitution prohibits a state personal income tax. However, Florida's Supreme Court has never issued an opinion on this matter.

Nevada has higher per capita sales tax collections than Tennessee. In 1998, Nevada had the second highest per capita sales collections in the nation. This was attributed to taxes collected from tourism and gambling. While Nevada has a higher state sales tax rate, 6.5-percent, than Tennessee, county sales tax rates range from zero to .75-percent. In 1998, Nevada collected \$2.7 million in general and selective sales taxes, which represented 84.9-percent of total state tax collections (See Table 4).

New Hampshire's selective sales taxes represented 49.4-percent of total state tax revenue for 1998. New Hampshire, like Alaska, does not have a general statewide sales tax. New Hampshire enacted a statewide property tax in April 1999 that was geared toward education funding. However, in October, the State Supreme Court ruled the statewide property tax was unconstitutional. In response to the court's ruling, the state Senate passed an income tax bill (15 votes to eight votes). The state's

House of Representatives voted the Senate's bill down. The governor, Jeanne Shaheen (D), said she would not support a state personal income tax.

Wyoming's state general and selective sales tax revenue yielded 47.1-percent of state tax revenue in 1998. The general sales taxes represented 39.2-percent of state tax collections. Wyoming, like Alaska, depends heavily on taxing natural resource production. In calendar year 1998, based on 1997 production, the Wyoming Department of Revenue assessed about \$4 billion on mineral production and levied an estimated \$263 million of ad valorem taxes. In fiscal year 1998, Wyoming collected \$238 million in mineral severance taxes.

In fiscal year 1998, Wyoming's statewide personal property tax revenue generated 11.6-percent of total state revenue (\$99 million) and other sources of tax revenue represented about 41.4-percent. Wyoming's state sales tax rate is four-percent. The county option general purpose and the specific purpose sales tax rates range from one-percent to four-percent. Presently, no county has a combined state and local state sales tax higher than six-percent.

South Dakota, Texas and Washington are states that do not have a personal income tax and presently tax more services and have a higher state sales tax rate than Tennessee.

South Dakota participates in three multi-state lottery games, including the 21-state "power ball" lottery, and has one in-state lottery game. Only two of South Dakota's four border states do not have a lottery; North Dakota and Wyoming.

Table 4
1998 General and Selective Sales Tax Collections

	Collections in \$000s	National Rank	Collections Per Capita	National Rank	Total Collections as a Percent of Total State Tax Revenue
Border States					
Alabama	\$2,993,580	25	\$688	40	52.2%
Arkansas	\$2,101,805	32	\$828	21	51.8%
Georgia	\$4,992,011	13	\$653	42	43.1%
Kentucky	\$3,257,523	23	\$828	23	45.8%
Mississippi	\$2,880,574	27	\$1,047	7	66.3%
Missouri	\$3,799,626	22	\$699	39	46.2%
North Carolina	\$5,735,162	11	\$760	30	41.4%
Tennessee	\$5,320,654	12	\$980	10	76.1%
Virginia	\$3,911,261	20	\$576	45	37.1%
Non-Income Tax States					
Alaska	\$116,803	50	\$190	50	9.8%
Florida	\$16,927,461	3	\$1,135	5	75.2%
Nevada	\$2,741,602	28	\$1,569	2	84.9%
New Hampshire	\$497,958	45	\$420	46	49.4%
South Dakota	\$661,363	43	\$896	15	79.3%
Texas	\$19,883,534	2	\$1,006	9	80.7%
Washington	\$8,682,790	8	\$1,526	3	73.5%

Source: US Census Bureau

Between state fiscal years 1990 and 1999, sales for all lottery games have increased at average annual rate of 12.5-percent. From 1990 through 1999, South Dakota has collected over \$652 million. These revenues are earmarked for the state's general fund, construction fund, and property tax relief

In Texas, the local option sales tax rate cannot exceed two-percent, thus making its highest combined state and local rate 8.25-percent. Cities, counties, special purpose districts, and metros (i.e. Dallas MTA) are the only local government entities that can impose a local option sales tax. If all four entities impose a local option sales tax, the total local option sales tax cannot exceed two-percent. In 1998, Texas was more dependent on the selective sales tax than Tennessee. The selective sales taxes represented 30.1-percent of total state tax collections because Texas applies higher tax

rates on items such as diesel fuel and cigarettes. Texas currently has the 23rd highest tax on cigarettes, while Tennessee is 45th. Texas also has a state lottery. In fiscal year 1998, the state received \$1.097 billion from lottery revenues, decrease of 7.2-percent from state fiscal year 1997.

Washington has an average state and local sales tax rate of 7.9-percent. The combined state and local retail sales tax rates range from seven-percent to 8.2-percent throughout the state depending on the variable local sales tax rates. In 1995, Washington was first in the nation in per capita sales tax collections. Another source of revenue in Washington is the intergovernmental transfer of some county property taxes. This also represents a significant source of revenue to state government. In 1998, property tax revenues that came from county governments

represented about 11-percent of state revenues.

Conclusion

Tennessee heavily relies on the sales tax for revenues. Because of Tennessee's unique position in bordering eight states that do not depend on the sales tax as their main source of revenue, further extension of the sales tax on services raises the concern of tax leakage since the combined state and local option sales tax in Tennessee is higher than the border state counties. Extending the sales tax to legal services, advertising, or services not currently taxed raises administrative and constitutional issues.

Federation of Tax Administrators Survey

The survey is composed of eight categories as defined by the FTA:

1. Repairs and Installation: One of the more widely taxed categories because of its association with tangible personal property is the traditional focus of sales taxes. Since many states enacted the sales tax during the Great Depression, elected officials were generally reluctant to impose the tax on labor services. This pattern is still present. While all 46 states with a retail sales tax apply the tax to materials used in general repair, only 23 states also apply sales taxes to general labor repairs. Of those remaining, 20 states require that labor be separately stated on the invoice to be exempt.

This pattern is also present in cases where states exempt certain services where labor is included, but tax the same service without the labor. For example, 38 states tax auto rentals while only 14

tax limousine services with a driver. Similarly, 43 states tax aircraft rentals, while only 10 tax aircraft rentals that include a pilot (chartered flights). This pattern is also seen in the taxation of professional and construction services.

2. Utilities: All states except Alaska, Idaho, Nevada, and Oregon tax some form of utility services, either through the sales tax or a separate gross receipts levy. The types of utilities examined in the survey include intrastate and interstate telecommunications, electricity, water, natural gas, other fuels and sewer services. The survey differentiates between commercial and residential uses of utility services. While 43 states (41 states tax commercial use) tax intrastate communication, only 20 states (21 states tax commercial use) tax interstate telephone services. Electricity is taxed in 23 states (36 states tax commercial use), water in 12 states (18 states tax commercial use), and sewer services in 10 states (12 states tax commercial use). Heating oil is taxed in 23 states (38 states tax commercial use).

3. Personal Services: The survey examined the taxation of 20 different personal services including barber, dating, laundry, and other services. The number of states taxing each service varied widely, ranging from 39 states taxing tuxedo rentals to only six states taxing barbershops and tax return preparation services. Generally, while services involving tangible personal property (garment alteration, shoe repair, and laundry) are taxed by a greater number of states, only tuxedo rental is taxed by more than 23 states. A number of states have added several personal services to the sales tax base since the

original survey in 1990. The most common are health clubs (an increase from 12 to 20 states), 900 phone service (from 10 to 24 states), and gift wrapping (from 10 to 18 states).

4. Business Services: Thirty-nine business services were examined in the survey, including various forms of advertising, commercial linen laundry, employment agency, security, janitorial, investigative, secretarial, and court reporting services. The most widely taxed business services are printing, taxed in 45 states, followed by photo finishing and photocopying services, taxed in 44 and 42 states, respectively. Meanwhile, advertising services are largely untaxed as they are taxed only in the states with broad-based sales taxes. Most of the expansion in business services has been in maintenance and janitorial services (increased from 13 to 18 states since the 1990 survey), telephone answering services (increased from 10 to 18 states), and commercial art and graphic design (increased from 13 to 20 states).

5. Computer Services: Computer programs and related services have presented a problem for traditional sales taxes because of the intangible nature of programming instructions and the nature of data and information processing services performed with computers. States have, however, begun to tax certain services associated with computers. All sales tax states except Alabama tax canned or packaged software. Idaho, Iowa, Kentucky, Massachusetts, Nevada, New Jersey, North Dakota, Utah, and Virginia tax only canned software. The nine states of Connecticut, Delaware, D.C., Hawaii, New Mexico, Pennsylvania, South Dakota, Texas, and Washington tax all

forms of computer services including information services. The remaining states tax a mixture of computer services.

6. Admissions and Amusements: Admissions and amusements are the most widely taxed service category, as over half of the states tax 10 or more services (out of 14 services). Some states tax these services under special taxes or allow local governments to tax these activities. Maryland and Washington allow local governments to impose an admission tax in addition to the state tax, while Ohio and Pennsylvania have local-only taxes.

7. Professional Services: Most discussions of taxing services end up focusing on certain professionals such as lawyers, accountants, engineers and doctors. For historical and other reasons, most states have avoided this area. Of the sales tax states, only Hawaii and New Mexico tax all eight services in the category, including medical-related professions. South Dakota taxes accountant, attorney, engineer, and land surveyors services. West Virginia and Texas tax only land surveyors services. Washington and Delaware tax most professional services under their business gross receipts taxes.

8. Other Services: The other services grouped in the table include such items as agriculture, construction, transportation and storage, finance, insurance and real estate, and rental and leasing services. These areas tend to be relatively untaxed, with the exception of the rental and leasing services, except in states that tax a large number of other services or in states that impose gross receipts taxes on most enterprises.

Federation of Tax Administrators Survey for Tennessee and the Contiguous States

The FTA's survey shows what services are taxed by states. According to the FTA survey, Tennessee taxes 82 different type of services, more than any of its border states. The following compares Tennessee's taxation of services its border states:

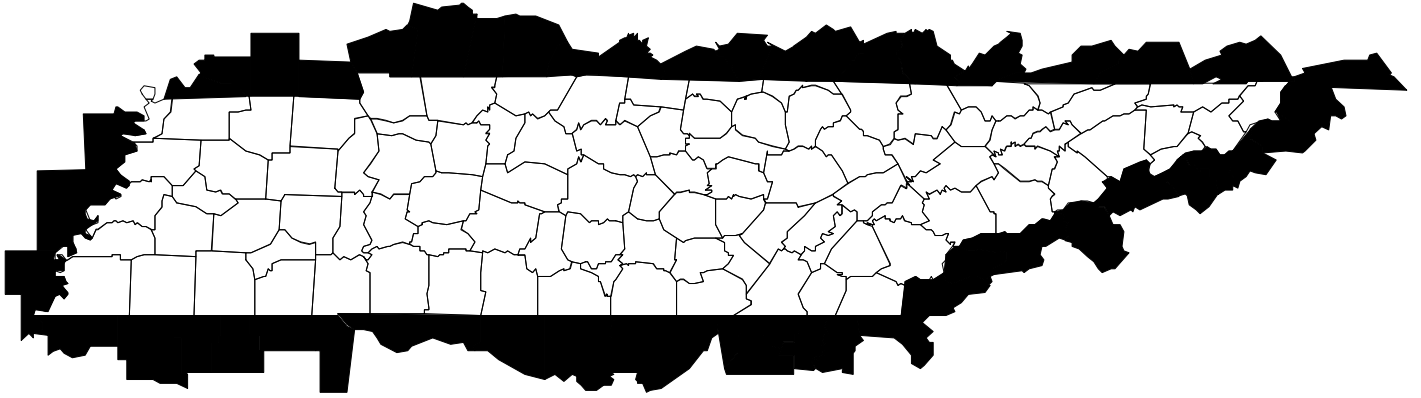
- **Agricultural Services:** Tennessee is the only state that taxes horse boarding and training (not racehorses) and pet grooming. Arkansas and Mississippi are the only states that tax landscaping services (including lawn care). Mississippi is the only state that taxes soil preparation services.
- **Industrial and Mining Services:** Tennessee, like Virginia and Mississippi, taxes typesetting services. It is the only service that Tennessee taxes in this category. Mississippi is the only state that taxes all items in this category.
- **Construction Services:** Mississippi and Tennessee are the only states that tax services in the category. Mississippi taxes all items, and Tennessee levies a tax on carpentry, painting, plumbing, and similar trades (See notes for further explanation on Tennessee's taxing of these services.)
- **Transportation Services:** Tennessee and Arkansas tax marina services (docking, storage, and cleaning repairs). Tennessee taxes the service only if it originated or was received in state and paid or billed to a state address. Georgia taxes the most services in this category.
- **Storage Services:** Tennessee, like Arkansas and Mississippi, taxes automotive storage services. Overall, Mississippi taxes most items (five out of the six items). Arkansas taxes two out of the six items.
- **Utility Services (Industrial Use):** Tennessee and Arkansas tax the same items in this category. Both states exempt sewer and refuse services. Kentucky taxes the same number of items but exempts interstate telephone and telegraph services. Kentucky is the only state that exempts sewer and refuse services. Arkansas, Kentucky, and Tennessee tax seven out eight items in this category.
- **Utility Services (Residential Use):** Arkansas taxes every service except sewer and refuse services. Tennessee taxes four of the eight services in this category. Tennessee exempts electricity, natural gas, other fuels, including heating oil, and sewer and refuse services. Georgia, which taxes five out of the eight items, does not exempt electricity, natural gas, and other fuel that includes heating fuel. North Carolina, which taxes five out of the eight items, also taxes natural gas and other fuel. North Carolina taxes other fuel at four-percent while taxing the other four items at three-percent. Tennessee does not deviate from its six-percent tax rate.
- **Finance, Insurance, and Real Estate (FIRE):** None of the states tax any services in this category.
- **Personal Services:** Tennessee taxes the most items in this category (11 out of 20 items). Arkansas taxes the second most

items in this category (six out of 20 items). Arkansas is the only state that taxes swimming pool cleaning and maintenance services. Virginia, which taxes three of the 20 items, is the only state that taxes gift and package wrapping services.

- **Business Services:** Tennessee taxes six out of the 34 services. Arkansas taxes 11 of the 34 services and Mississippi taxes eight of the 34 services. Both Arkansas and Mississippi tax telephone answering services while Tennessee exempts that item. Arkansas taxes armored car, check and debt collection, credit information and credit bureau, maintenance and janitorial, and window cleaning services while Tennessee exempts those services. Mississippi taxes exterminating services (including termite extermination) while Tennessee exempts that item.
- **Computer Services:** Tennessee and Mississippi tax the most services. Both states tax the same items (See Appendix 2). There are seven types of services in this category.
- **Automotive Services:** Of the five services in this category, Tennessee is the only state that taxes all items. Arkansas and Mississippi tax four of the five services and the rest of the border states do not levy any taxes on services in this category.
- **Admission and Amusement:** Tennessee taxes more services in this category than any of the border states. Tennessee taxes 12 of the 14 items. Tennessee exempts coin-operated video games, which are taxed by Alabama, Arkansas, and Missouri, and pinball machines and other mechanical

amusements, which are also taxed by Alabama, Arkansas, and Missouri.

- **Professional Services:** None of the states levy a tax on services in this category.
- **Lease and Rentals:** The FTA only tabulated limousine service with driver(s), chartered flights with pilot(s), and overnight trailer parks as services that are taxed. Tennessee taxes 11 of the 13 services in this category. Only Virginia taxes all 13 services in this category. Of the other eight states, Georgia is the only state that taxes limousine service with driver(s). Tennessee exempts chartered flights with pilots while Georgia, Missouri, and Virginia tax this service.
- **Fabrication, Installation, and Repair Services:** Tennessee and Mississippi tax the most services in this category. Both states tax 15 of the 20 services in this category. Tennessee taxes more services in this category than in any other category. Tennessee exempts labor charges on aircraft repair while Arkansas and Mississippi tax that service. Tennessee also exempts custom meat slaughtering (cutting and wrapping), which is taxed by Mississippi, and taxidermy, which is taxed by Georgia.



Appendices

Appendix 1 Summary of State Taxation of Services in Tennessee and the Border States

Appendix 1 is the summary of the total number of services that Tennessee and the border states tax.

Appendix 2 State Taxation of Services in Tennessee and Border States

Appendix 2 shows all services that are either taxed or exempted by Tennessee and the border states.

Appendix 3 Comparing Tennessee Taxation of Services to Border States

Appendix 3 shows services that are not taxed in Tennessee or in the border states; services that are not taxed in Tennessee but are taxed in the border states; and services that are taxed both in Tennessee and the border states.

Appendix 4 Notes on State Taxation of Services

Appendix 4 are notes providing further explanation of why certain services are taxed or exempted, and the additional use fees applied to some services.

Appendix 5 Map of the State and Local Tax Rates of the Contiguous Counties

Appendix 5 shows the state and local option sales tax of the contiguous counties.

Appendix 1

Summary of State Taxation of Services in Tennessee and the Border States

FTA Category	Total Number of Services	AL		AR		GA	
		Taxed	Exempt	Taxed	Exempt	Taxed	Exempt
Agricultural	5	0	5	1	4	0	5
Industrial and Mining	4	0	4	0	4	0	4
Construction	4	0	4	0	4	0	4
Transportation	9	0	9	1	8	3	6
Storage	6	0	6	2	4	0	6
Utilities	16	9	7	14	2	10	6
FIRE	8	0	8	0	8	0	8
Personal	20	2	18	6	14	3	17
Business	34	6	28	11	23	3	31
Computer	7	1	6	2	5	3	4
Automotive	5	0	5	4	1	0	5
Admissions & Amusements	14	10	4	11	3	8	6
Professional	8	0	8	0	8	0	8
Leases and Rentals	13	11	2	11	2	12	1
Fabrication, Installation and Repair	20	2	18	12	8	3	17
Miscellaneous	1	1	0	1	0	0	1
Total	174	42	132	76	98	45	129
<i>Percent of Total Services Tax/Exempt</i>		<i>24.1%</i>	<i>75.9%</i>	<i>43.1%</i>	<i>56.9%</i>	<i>25.9%</i>	<i>74.1%</i>

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12.

Appendix 1 continued

Summary of State Taxation of Services in Tennessee and the Border States

FTA Category	Total Number of Services	KY		MS		MO	
		Taxed	Exempt	Taxed	Exempt	Taxed	Exempt
Agricultural	5	0	5	2	3	0	5
Industrial and Mining	4	0	4	4	0	0	4
Construction	4	0	4	4	0	0	4
Transportation	9	0	9	1	8	2	7
Storage	6	0	6	5	1	0	6
Utilities	16	10	6	8	8	8	8
FIRE	8	0	8	0	8	0	8
Personal	20	2	18	4	16	1	19
Business	34	4	30	8	26	2	32
Computer	7	1	6	4	3	2	5
Automotive	5	0	5	4	1	0	5
Admissions & Amusements	14	6	8	10	4	11	3
Professional	8	0	8	0	8	0	8
Leases and Rentals	13	8	5	11	2	12	1
Fabrication, Installation and Repair	20	4	16	15	5	1	19
Miscellaneous	1	0	1	1	0	0	1
Total	174	35	139	81	93	39	135
<i>Percent of Total Services Tax/Exempt</i>		<i>20.1%</i>	<i>79.9%</i>	<i>46.6%</i>	<i>53.4%</i>	<i>21.8%</i>	<i>78.2%</i>

Source: 1996 FTA Taxation of Services Survey, Vol. 60, and No. 12.

Appendix 1 continued

Summary of State Taxation of Services in Tennessee and the Border States

FTA Category	Total Number of Services	NC		TN		Taxed	Exempt
		Taxed	Exempt	Taxed	Exempt		
Agricultural	5	0	5	2	3	0	5
Industrial and Mining	4	0	4	1	3	1	3
Construction	4	0	4	1	3	0	4
Transportation	9	0	9	1	8	0	9
Storage	6	0	6	1	5	0	6
Utilities	16	10	6	11	5	1	15
FIRE	8	0	8	0	8	0	8
Personal	20	4	16	11	9	3	17
Business	34	5	29	6	28	4	30
Computer	7	2	5	4	3	1	6
Automotive	5	0	5	5	0	0	5
Admissions & Amusements	14	7	7	12	2	1	13
Professional	8	0	8	0	8	0	8
Leases and Rentals	13	10	3	11	2	13	0
Fabrication, Installation and Repair	20	2	18	15	5	5	15
Miscellaneous	1	0	1	1	0	1	0
Total	174	40	134	82	92	30	144
<i>Percent of Total Services Tax/Exempt</i>		<i>23.0%</i>	<i>77.0%</i>	<i>47.1%</i>	<i>52.9%</i>	<i>17.2%</i>	<i>82.8%</i>

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12.

Appendix 2

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Basic Sales Tax Rate	4	4.625 *	4	6	7	4.225	4 *	6 *	4.5 *
Agricultural Services (5 Services)									
1 Soil prep., custom baling, other ag. services	E	E	E	E	7	E	E	E	E
2 Veterinary services (both large and small animal)	E	E	E	E	E	E	E	E	E
3 Horse boarding and training (not race horses)	E	E	E	E	E	E	E	6 *	E
4 Pet grooming	E	E	E	E	E	E	E	6 *	E
5 Landscaping services (including lawn care)	E	4.625	E	E	7 *	E	E	E	E *
Total Number of Services Taxed	0	1	0	0	2	0	0	2	0
Industrial and Mining Services (4 Services)									
6 Metal, non-metal and coal mining services	E	E	E	E	7 *	E	E	E	E
7 Seismograph & Geophysical Services	E	E	E	E	7	E	E	E	E
8 Oil Field Services	E	E *	E	E	7 *	E	E	E	E
9 Typesetting service; platemaking for the print trade	E	E	E	E	7	E	E *	6 *	4.5
Total Number of Services Taxed	0	0	0	0	4	0	0	1	1
Construction (4 Services)									
10 Gross Income of Construction Contractors	E	E	E	E	3.5 *	E	E	E	E
11 Carpentry, painting, plumbing and similar trades.	E	E	E	E	7 *	E	E	6 *	E
12 Construction service (grading, excavating, etc.)	E	E	E	E	7	E	E	E	E
13 Water well drilling	E	E	E	E	7	E	E	E	E
Total Number of Services Taxed	0	0	0	0	4	0	0	1	0

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Transportation Services (9 Services)									
14	E	E	4	E	E	4.225	E	E	E
15	E	E	4 *	E	E	E	E *	E	E
16	E	E	4	E	E	E	E	E	E
17	E	E	E	E	E	E	E	E	E
18	E	E	E	E	E	E	E	E	E
19	E	4.625 *	E *	E	7	4.225	E *	6 *	E
20	E	E	E	E	E	E	E	E	E
21	E	E	E	E	E	E	E	E	E
22	E	E	E	E	E	E	E	E	E
<i>Total Number of Services Taxed</i>									
	0	1	3	0	0	2	0	1	0
Storage (6 Services)									
23	E	4.625	E	E	7	E	E	6 *	E
24	E	E	E	E	7	E	E	E	E
25	E	4.625	E	E	7	E	E	E	E
26	E	E	E	E	7	E	E	E	E
27	E	E	E	E	E	E	E	E	E
28	E	E	E	E	7	E	E	E	E
<i>Total Number of Services Taxed</i>									
	0	2	0	0	5	0	0	1	0
Utility Service - Industrial Use (8 Services)									
29	6.7 *	4.625 *	4	6	7	4.225	3 *	6	E
30	E *	4.625 *	E	E	E	E	E	6 *	E
31	E	4.625	4 *	6	7	4.225	3 *	6 *	E *

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Utility Service - Industrial Use (8 Services)									
Continued									
32 Electricity	4 *	4.625 *	4	6 *	1.5 *	4.225 *	3 *	6 *	E *
33 Water	E	4.625	E *	6	7	4.225	E *	6 *	E *
34 Natural gas	4 *	4.625	4	6 *	1.5 *	4.225 *	3 *	6 *	E *
35 Other fuel (including heating oil)	4	4.625	4	6 *	1.5 *	4.225	1 *	6 *	4.5 *
36 Sewer and refuse, industrial	E	E	E	6 *	E	E	E	E	E
- Residential Use (8 Services)									
37 Intrastate telephone & telegraph	6.7 *	4.625 *	4	6	7	4.225	3 *	6	E
38 Interstate telephone & telegraph	E	4.625 *	E	E	E	E	E	6 *	E
39 Cellular telephone services	E *	4.625	4 *	6	7	4.225	3 *	6 *	E *
40 Electricity	4 *	4.625 *	4	E	E	E	3 *	E	E
41 Water	4 *	4.625	E *	E	E	E	E *	6	E
42 Natural gas	4 *	4.625	4	E	E	E	3 *	E	E *
43 Other fuel (including heating oil)	4	4.625	4	E	E	E	4 *	E	E *
44 Sewer and refuse, residential	E	E	E	6 *	E	E	E	E	E
Total Number of Services Taxed	9	14	10	10	8	8	10	11	1
Finance, Insurance and Real Estate (8 Services)									
45 Service charges of banking institutions	E	E	E	E	E	E	E	E	E
46 Insurance services	E	E	E	E	E	E	E	E	E
47 Investment counseling	E	E	E	E	E	E	E	E	E
48 Loan broker fees	E	E	E	E	E	E	E	E	E
49 Property sales agents (real estate or personal)	E	E	E	E	E	E	E	E	E
50 Real estate management fees (rental agents)	E	E	E	E	E	E	E	E	E

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Finance, Insurance and Real Estate (8 Services)									
Continued									
51 Real estate title abstract services	E	E	E	E	E	E	E	E	E
52 Tickertape reporting (financial reporting)	E	E	E	E	E	E	E	E	E
Total Number of Services Taxed	0	0	0	0	0	0	0	0	0
Personal Services (20 Services)									
53 Barber shops and beauty parlors	E	E	E	E *	E	E	E	E	E
54 Carpet and upholstery cleaning	E	4.625	E	E	E	E	E *	6 *	E
55 Dating services	E	E	E	E	E	E	E	E	E
56 Debt counseling	E	E	E	E	E	E	E	E	E
57 Diaper service	2 *	E	4	E	7	E *	4 *	6	4.5
58 Income from funeral services	E	E *	4 *	E	E	E	4 *	6 *	E *
59 Fishing and hunting guide services	E	E	E	E	E	E	E	6	E
60 Garment services (altering & repairing)	E	E	E	E *	E	E	E	6 *	E *
61 Gift and package wrapping service	E	E	E	E	E	E	E	E	4.5 *
62 Health clubs, tanning parlors, reducing salons	E	4.625 *	E	E	E	4.225 *	E	6 *	E
63 Laundry and dry cleaning services, coin-op	E	E	E	E	E	E	E	E	E
64 Laundry and dry cleaning services, non-coin op	E	E	E	E	7	E	4 *	6	E
65 Massage services	E	E	E	E	E	E	E	6	E
66 900 Number services	E	4.625	E	6 *	E *	E	E *	6	E
67 Personal instruction (dance, golf, tennis, etc.)	E	E	E	E	E	E	E	E *	E
68 Shoe repair	E *	4.625	E	E	7	E	E *	6	E
69 Swimming pool cleaning & maintenance	E	4.625	E	E	E	E	E	E *	E
70 Tax return preparation	E	E	E	E	E	E	E	E *	E

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Personal Services (20 Services) Continued									
71 Tuxedo rental	2 *	4.625	4	6 *	7	E *	4 *	6	4.5
72 Water softening and conditioning	E	E	E	E	E	E	E	E	E
Total Number of Services Taxed	2	6	3	2	4	1	4	11	3
Business Services (34 Services)									
Sales of advertising time or space:									
73 Billboards	E	E	E	E	E	E	E	E	E
74 Radio & television, national advertising	E	E	E	E	E	E	E	E	E
75 Radio & television, local advertising	E	E	E	E	E	E	E	E	E
76 Newspaper	E	E	E	E	E	E	E *	E	E
77 Magazine	E	E	E	E	E	E	E *	E	E
78 Advertising agency fees (not ad placement)	E	E	E *	E	E	E	E	E	E
79 Armored car services	E	4.625	E	E	E	E	E	E	E
80 Bail bond fees	E	E	E	E	E	E	E	E	E
81 Check & debt collection	E	4.625	E	E	E	E	E	E	E
82 Commercial art and graphic design.	E	E	E	E	E	E	4	E *	E
83 Commercial linen supply	2 *	4.625 *	4	E	7	E *	4 *	6	4.5
84 Credit information, credit bureaus	E	4.625	E	E	E	E	E	E	E
85 Employment agencies	E	E	E	E	E	E	E	E	E
86 Interior design and decorating	4 *	E	E	E	E	E	E *	E *	E *
87 Maintenance and janitorial services	E	4.625	E	E	E	E	E	E	E
88 Lobbying and consulting	E	E	E	E	E	E	E	E	E
89 Marketing	E	E	E	E	E	E	E	E	E

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA	
Business Services (34 Services) Continued										
90	Packing and crating	E	E	E	E	E	E	E	E	
91	Exterminating (includes termite services)	E	E	E	E	7	E	E	E	
92	Photocopying services	4 *	4.625 *	E	6	7 *	E	4 *	6	4.5
93	Photo finishing	4 *	4.625	4	6	7	4.225 *	4 *	6	E *
94	Printing	4 *	4.625	4	6	7 *	4.225	4 *	6	4.5
95	Private investigation (detective) services	E	E	E	E	E	E	E	E	E
96	Process server fees	E	E	E	E	E	E	E	E	E
97	Public relations, management consulting	E	E	E	E	E	E	E	E	E
98	Secretarial and court reporting services	E	E	E	E	E	E	E	E	E
99	Security services	E	E	E	E	E	E	E	E	E
100	Sign construction and installation	E	E	E	E	7 *	E	T,E *	6 *	4.5 *
101	Telemarketing services on contract	E	E	E	E	E	E	E	E	E
102	Telephone answering service	E	4.625	E	E	7	E	E	E	E
103	Temporary help agencies	E	E	E	E	E	E	E	E	E
104	Test laboratories (excluding medical)	E	E	E	E	E *	E	E	E	E
105	Tire recapping and repairing	4	4.625	E	6 *	7	E *	E *	6	E *
106	Window cleaning	E	4.625	E	E	E	E	E	E	E
Total Number of Services Taxed		6	11	3	4	8	2	5	6	4
Computer (7 Services)										
107	Software - package or canned program	E *	4.625	4	6	7	4.225	4 *	6	4.5 *
108	Software - modifications to canned program	E *	E	4	E	7	4.225	4 *	6	E *
109	Software - custom programs - material	4	4.625	4	E *	7	E	E *	6	E

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Computer (7 Services) Continued									
110	E	E *	E	E *	7	E	E *	6 *	E *
111	E	E	E	E	E	E	E	E	E
112	E	E	E	E *	E	E	E	E	E
113	E	E	E	E	E	E	E	E	E
Total Number of Services Taxed									
	1	2	3	1	4	2	2	4	1
Automotive Services (5 Services)									
114	E	4.625 *	E	E	7	E	E	6 *	E
115	E	E	E	E	E *	E	E	6 *	E
116	E	4.625 *	E	E	7	E	E	6	E
117	E	4.625	E	E	7	E	E	6 *	E
118	E	4.625	E	E	7	E	E	6 *	E
Total Number of Services Taxed									
	0	4	0	0	4	0	0	5	0
Admissions & Amusements (14 Services)									
119	E	6.625 *	4	15 *	7	4.225	3 *	6	E
120	4	6.625 *	4	6 *	7	4.225	3 *	6	E
121	4	4.625	4	E	7	4.225	E	6 *	E
122	4	4.625	4	E	7	4.225	E	6	E
123	E	4.625	E	E	7	E	E *	6 *	E
124	4	4.625 *	4	6	7 *	4.225	3 *	6	E
125	4	4.625	E *	E	E	4.225	E	E	E
126	4	E	E *	E	7 *	4.225	3 *	6 *	E

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Admissions & Amusements (14 Services) Continued									
127	E	E *	E	E	E	4.225	E	6	E
128	4	4.625	4	6	E *	4.225	3 *	6	E
129	4	4.625	E *	E	E	4.225	E	E	E
130	4	4.625	4	6	7 *	4.225	3 *	6	E
131	E	E	E	E *	7	E	E	6	E *
132	4 *	5.625 *	4	6	7	E *	4 *	6	4.5
	10	11	8	6	10	11	7	12	1
Professional Services (8 Services)									
133	E	E	E	E	E	E	E	E	E
134	E	E	E	E	E	E	E	E	E
135	E	E	E	E	E	E	E	E	E
136	E	E	E	E	E	E	E	E	E
137	E	E	E	E	E	E	E	E	E
138	E	E	E	E	E	E	E	E	E
139	E	E	E	E	E	E	E	E	E
140	E	E	E	E	E	E	E	E	E
Total Number of Services Taxed									
	0	0	0	0	0	0	0	0	0
Leases and Rentals (13 Services)									
141	4 *	5.625 *	4	6 *	7	4.225 *	4 *	6	4.5
142	4 *	4.625 *	4	6 *	7	4.225 *	4 *	6	4.5
143	1.5 *	5.625	4	6 *	7	4.225	4 *	6	4.5

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA	
Leases and Rentals (13 Services) Continued										
144	Bulldozers, draglines and const. mach., long term	1.5 *	4.625	4	6 *	7	4.225	4 *	6	4.5
145	Rental of hand tools to licensed contractors.	4 *	5.625	4	6	7	4.225	4 *	6	4.5
146	Short term automobile rental	1.5 *	9.25 *	4	E	5 *	4.225	8 *	6	6.5 *
147	Long term automobile lease	1.5 *	4.625 *	4	E	5	4.225	3 *	6	3 *
148	Limousine service (with driver)	E	E	4	E	E	E	E	E	6.5
149	Aircraft rental to individual pilots, short term	1.5 *	5.625 *	4	6 *	3	4.225	3	6	2 *
150	Aircraft rental to individual pilots, long term	1.5 *	4.625	4	6 *	3	4.225	3 *	6	2 *
151	Chartered flights (with pilot)	E	E	4	E	E	4.225	E	E	2 *
152	Hotels, motels, lodging houses	4 *	6.625 *	4	6	7 *	4.225	4 *	6	4.5 *
153	Trailer parks - overnight	4 *	2 *	E	E	7	4.225	E	6	4.5 *
		11	11	12	8	11	12	10	11	13
Fabrication, Installation and Repair Services (20 Services)										
154	Custom fabrication labor	4 *	E *	4	6	7	E	4 *	6 *	4.5
155	Repair material, generally	4	4.625 *	4	6	7	4.225	1, 4 *	6	4.5
156	Repair labor, generally	E *	4.625 *	E *	E *	7	E *	E *	6 *	E *
157	Labor charges on repair of aircraft	E	4.625 *	E	E	7	E	E	E *	E
158	Labor charges - repairs to interstate vessels	E	4.625 *	E *	E	5	E	E *	6 *	E
159	Labor charges - repairs to intrastate vessels	E	4.625 *	E	E	5	E	E	6	E
160	Labor - repairs to commercial fishing vessels	E	4.625 *	E	E	E	E	E	6	E
161	Labor charges on repairs to railroad rolling stock	E	4.625 *	E *	E	E	E	E	6	E *
162	Labor charges on repairs to motor vehicles	E	4.625 *	E	E	7	E	E *	6	E
163	Labor on radio/TV repairs; other electronic equip.	E	4.625 *	E	E	7	E	E *	6	E

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA
Fabrication, Installation and Repair Services (20 Services) Continued									
164	E	4.625 *	E	E	7	E	E *	6	E
165	E	E *	E	E	E *	E	E	E *	E
166	E	E *	E	E	E	E	E	E	E
167	E *	4.625	E	E	7	E	E	6	4.5 *
168	E	E *	E *	E *	7 *	E *	E *	6	E *
169	E	E *	E	E	7 *	E	E	6 *	E *
170	E	E	E *	6	7 *	E	E	6 *	4.5 *
171	E	E		E	7	E	E	E	4.5
172	E	E	4	E	E	E	E	E	E
173	E *	4.625	E	6 *	7	E	E *	6	E *
Total Number of Services Taxed									
	2	12	3	4	15	1	2	15	5
Other Taxed Services (Miscellaneous)									
174	4 *	4.5 *			7 *		No	6 *	Yes *
	1	1	0	0	1	0	0	1	1
USE TAX ON SERVICES									
175	No	No	No	No	No	No *	No	No	Yes *
	If yes, at what rate?								3.5
176	N/A	S	Both		B	B/S	S *		*
177	*		*		*	*	*	*	*
178	Yes	*	Yes	Yes	Yes	Yes	Yes *	E	Yes *
179	Yes	*	No	Yes	No	Yes	No	E	No *

Source: 1996 FTA Taxation of Services Survey, Vol. 60, No. 12

Appendix 2 continued

State Taxation of Services in Tennessee and the Border States

#	AL	AR	GA	KY	MS	MO	NC	TN	VA	
180	Exempt sales of services sold to federally chartered banks?	Yes	No	Yes	Yes	No	Yes	Yes *	6	No
181	Is the tax on services imposed on (S)eller or (B)uyer?	N/A	S *	B	S *	S *	S	S *	S *	B/S *
ADDITIONAL SALES/USE TAX QUESTIONS										
182	Does your state tax tangible personal property that is purchased for rental or lease? (Yes/No) Please explain.	No *	No *	No *	No *	No *	Yes *	No	No *	No *
183	Does your state tax the gross receipts from tangible personal property rentals or leases? (Yes/No) Please explain	Yes *	Yes *	Yes	Yes *	Yes *	Yes	Yes	Yes *	Yes *
184	Does your state tax shipping and delivery charges for tangible personal property? (Yes/No) Please explain.	Yes *	Yes *	Yes *	No	Yes *	Yes *	Yes *	Yes *	No *
TAXATION OF ONLINE SERVICES QUESTIONS										
185	Does your state impose the sales tax or other gross receipts tax on businesses providing access to online services (i.e., Internet Service Provider) (Yes/No)?	No	No	No	N/A	No	Yes	No		*
186	What is the tax rate and who is responsible for remitting the tax?			N/A		4.225 *	N/A			
187	Does your state impose the sales tax on other gross receipts tax on businesses providing information distributed through an online service (i.e., Lexis, CCH online) (Yes/No)?	No	No	No	N/A	No	No	No		*
188	What is the tax rate and who is responsible for remitting the tax?						N/A			

Appendix 3

Table 1: Services that are not taxed in Tennessee and in the Border States

Agricultural Services		FTA #	TENNESSEE	BORDER STATES
E				
1	Veterinary services (both large and small animal)	2	X	X
Transportation Services				
2	Intrastate courier service	17	X	X
3	Interstate air courier (billed in-state)	18	X	X
Storage				
4	Mini -storage	23	X	X
5	Marine towing service (incl. tugboats)	26	X	X
6	Travel agent services	27	X	X
7	Packing and crating	28	X	X
Finance, Insurance and Real Estate				
8	Service charges of banking institutions	45	X	X
9	Insurance services	46	X	X
10	Investment counseling	47	X	X
11	Loan broker fees	48	X	X
12	Property sales agents (real estate or personal)	49	X	X
13	Real estate management fees (rental agents)	50	X	X
14	Real estate title abstract services	51	X	X
15	Tickertape reporting (financial reporting)	52	X	X
Personal Services				
16	Barber shops and beauty parlors	53	X	X
17	Dating services	55	X	X
18	Debt counseling	56	X	X
19	Laundry and dry cleaning, coin-op	63	X	X
20	Personal instruction (dance, golf, tennis, etc.)	67	X	X
21	Tax return preparation	70	X	X
22	Water softening and conditioning	72	X	X
Business Services				
23	Billboards	73	X	X
24	Radio & television, national advertising	74	X	X
25	Radio & television, local advertising	75	X	X
26	Newspaper	76	X	X
27	Magazine	77	X	X

Appendix 3 continued

Table 1 continued

Business Services		FTA #	TENNESSEE	BORDER STATES
28	Advertising agency fees (not ad placement)	78	X	X
29	Bail bond fees	80	X	X
30	Commercial art and graphic design.	82	X	X
31	Employment agencies	85	X	X
32	Lobbying and consulting	88	X	X
33	Marketing	89	X	X
34	Packing and crating	90	X	X
35	Private investigation (detective) services	95	X	X
36	Process server fees	96	X	X
37	Public relations, management consulting	97	X	X
38	Secretarial and court reporting services	98	X	X
39	Security services	99	X	X
40	Telemarketing services on contract	101	X	X
41	Temporary help agencies	103	X	X
42	Test laboratories (excluding medical)	104	X	X
Computer Services				
43	Information services	111	X	X
44	Data processing services	112	X	X
45	Mainframe computer access and processing serv.	113	X	X
Professional Services				
46	Accounting and bookkeeping	133	X	X
47	Attorneys	134	X	X
48	Dentists	135	X	X
49	Engineers	136	X	X
50	Land surveying	137	X	X
51	Medical test laboratories	138	X	X
52	Nursing services out-of-hospital	139	X	X
53	Physicians	140	X	X
Fabrication, Installation and Repair Services				
54	Labor - repairs or remodeling of real property	165	X	X
55	Labor charges on repairs delivered under warranty	166	X	X

Source: FTA 1996 Taxation of Services Survey

Appendix 3 continued

Table 2: Services that are not taxed in Tennessee but are taxed in the Border States

Service Category

Agricultural Services		FTA #	TENNESSEE	BORDER STATES
1	Soil prep., custom baling, other ag. services	1	X	MS
2	Landscaping services (including lawn care)	5	X	AR, MS
Industrial and Mining Services				
3	Metal, non-metal and coal mining services	6	X	MS
4	Seismograph & Geophysical Services	7	X	MS
5	Oil Field Services	8	X	MS
Construction				
6	Gross Income of Construction Contractors	10	X	MS
7	Construction service (grading, excavating, etc.)	12	X	MS
8	Water well drilling	13	X	MS
Transportation Services				
9	Income from intrastate transportation of persons	14	X	GA, MO
10	Local transit (intra-city) buses	15	X	GA
11	Income from taxi operations	16	X	GA
Storage				
12	Food storage	20	X	MS
13	Fur storage	21	X	AR, MS
14	Household goods storage	22	X	MS
15	Cold storage	24	X	MS
Utility Service - Industrial Use				
16	Sewer and refuse, industrial	36	X	KY
- Residential Use				
17	Electricity	40	X	AL, AR, GA, NC
18	Natural gas	42	X	AL, AR, GA, NC
19	Other fuel (including heating oil)	43	X	AL, AR, GA, NC
20	Sewer and refuse, residential	44	X	KY
Personal Services				
21	Gift and package wrapping service	61	X	VA
22	Swimming pool cleaning & maintenance	69	X	AR
Business Services				
23	Armored car services	79	X	AR
24	Check & debt collection	81	X	AR
25	Credit information, credit bureaus	84	X	AR

Appendix 3 continued

Table 2 continued

Service Category

Business Services				
26	Interior design and decorating	86	X	AL
27	Maintenance and janitorial services	87	X	AR
28	Exterminating (includes termite services)	91	X	MS
29	Telephone answering service	102	X	AR, MS
30	Window cleaning	106	X	AR
Admissions & Amusements				
31	Coin operated video games	125	X	AL, AR, MO
32	Pinball and other mechanical amusements	129	X	AL, AR, MO
Leases and Rentals				
33	Limousine service (with driver)	148	X	GA, VA
34	Chartered flights (with pilot)	151	X	GA, MO, VA
Fabrication, Installation and Repair Services				
35	Labor charges on repair of aircraft	157	X	AR, MS
36	Custom meat slaughtering, cutting and wrapping	171	X	MS, VA
37	Taxidermy	172	X	GA

Source: FTA 1996 Taxation of Services Survey

Appendix 3 continued

Table 3: Services that are taxed in both Tennessee and the Border State

Service Category

Industrial and Mining Services		FTA #	TENNESSEE	BORDER STATES
1	Typesetting service; platemaking for the print trade	9	X	MS, VA
Construction				
2	Carpentry, painting, plumbing and similar trades.	11	X	MS
Storage				
3	Automotive storage	19	X	AR, MS
4	Marina Service (docking, storage, cleaning, repair)	25	X	AR, MS, MO
Utility Service - Industrial Use				
5	Intrastate telephone & telegraph	29	X	AL, AR, GA, KY, MS, MO, NC
6	Interstate telephone & telegraph	30	X	AR
7	Cellular telephone services	31	X	AR, GA, KY, MS, MO, NC
8	Electricity	32	X	AL, AR, GA, KY, MS, MO, NC
9	Water	33	X	AR, KY, MS, MO
10	Natural gas	34	X	AL, AR, GA, KY, MS, MO, NC
11	Other fuel (including heating oil)	35	X	ALL EIGHT STATES
- Residential Use				
12	Intrastate telephone & telegraph	37	X	AL, AR, GA, KY, MS, MO, NC
13	Interstate telephone & telegraph	38	X	AR
14	Cellular telephone services	39	X	AR, GA, KY, MS, MO, NC
15	Water	41	X	AL, AR
Personal Services				
16	Carpet and upholstery cleaning	54	X	AR
17	Diaper service	57	X	AL, GA, MS, NC, VA
18	Income from funeral services	58	X	GA, NC
19	Health clubs, tanning parlors, reducing salons	62	X	AR, MO
20	Laundry and dry cleaning services, non-coin op	64	X	MS, NC
21	900 Number services	66	X	AR, KY
Personal Services		FTA #	TENNESSEE	BORDER STATES
22	Shoe repair	68	X	AR, MS
23	Tuxedo rental	71	X	AL, AR, GA, KY, MS, NC, VA

Appendix 3 continued

Table 3 continued

Service Category

Personal Services		FTA #	TENNESSE E	BORDER STATES
24	Commercial linen supply	83	X	AL, AR, GA, MS, NC, VA
Business Services				
25	Photocopying services	92	X	AL, AR, KY, MS, NC, VA
26	Photo finishing	93	X	AL, AR, GA, KY, MS, MO, NC
27	Printing	94	X	ALL EIGHT STATES
28	Sign construction and installation	100	X	MS, VA
29	Tire recapping and repairing	105	X	AL, AR, KY, MS
Computer:				
30	Software - package or canned program	107	X	AR, GA, KY, MS, MO, NC, VA
31	Software - modifications to canned program	108	X	GA, MS, MO, NC
32	Software - custom programs - material	109	X	AL, AR, GA, MS
33	Software - custom programs - professional serv.	110	X	MS
Automotive Services				
34	Automotive washing and waxing.	114	X	AR, MS
35	Auto service. except repairs, incl. painting & lube	116	X	AR, MS
36	Parking lots & garages	117	X	AR, MS
37	Automotive rustproofing & undercoating.	118	X	AR, MS
Admissions & Amusements				
38	Pari-mutuel racing events.	119	X	AR, GA, KY, MS, MO, NC
39	Amusement park admission & rides	120	X	AL, AR, GA, KY, MS, MO, NC
40	Billiard parlors	121	X	AL, AR, GA, MS, MO
41	Bowling alleys	122	X	AL, AR, GA, MS, MO
42	Cable TV services	123	X	AR, MS
43	Circuses and fairs -- admission and games	124	X	AL, AR, GA, KY, MS, MO, NC
44	Admission to school and college sports events	126	X	AL, MS, MO, NC
45	Membership fees in private clubs.	127	X	MO
46	Admission to cultural events	128	X	AL, AR, GA, KY, MO, NC
47	Admission to professional sports events	130	X	AL, AR, GA, KY, MS, MO, NC
48	Rental of films and tapes by theaters	131	X	MS

Appendix 3 continued

Table 3 continued

Service Category

Admissions & Amusements				
49	Rental of video tapes for home viewing	132	X	AL, AR, GA, KY, MS, NC, VA
Leases and Rentals				
50	Personal property, short term (generally)	141	X	ALL EIGHT STATES
51	Personal property, long term (generally)	142	X	ALL EIGHT STATES
52	Bulldozers, draglines and const. mach., short term	143	X	ALL EIGHT STATES
53	Bulldozers, draglines and const. mach., long term	144	X	ALL EIGHT STATES
54	Rental of hand tools to licensed contractors.	145	X	ALL EIGHT STATES
55	Short term automobile rental	146	X	AL, AR, GA, MS, MO, NC, VA
56	Long term automobile lease	147	X	AL, AR, GA, MS, MO, NC, VA
57	Aircraft rental to individual pilots, short term	149	X	ALL EIGHT STATES
58	Aircraft rental to individual pilots, long term	150	X	ALL EIGHT STATES
59	Hotels, motels, lodging houses	152	X	ALL EIGHT STATES
60	Trailer parks - overnight	153	X	AL, AR, MS, MO, VA
Fabrication, Installation and Repair Services				
61	Custom fabrication labor	154	X	AL, GA, KY, MS, NC, VA
62	Repair material, generally	155	X	ALL EIGHT STATES
63	Repair labor, generally	156	X	AR, MS
64	Labor charges - repairs to interstate vessels	158	X	AR, MS
65	Labor charges - repairs to intrastate vessels	159	X	AR, MS
66	Labor - repairs to commercial fishing vessels	160	X	AR
67	Labor charges on repairs to railroad rolling stock	161	X	AR
68	Labor charges on repairs to motor vehicles	162	X	AR, MS
69	Labor on radio/TV repairs; other electronic equip.	163	X	AR, MS
70	Labor charges - repairs other tangible property	164	X	AR, MS
71	Service contracts sold at the time of sale of TPP.	167	X	AR, MS, VA
72	Installation charges by persons selling property	168	X	MS
73	Installation charges - other than seller of goods	169	X	MS
74	Custom processing (on customer's property)	170	X	KY, MS, VA
75	Welding labor (fabrication and repair)	173	X	AR, KY, MS
Miscellaneous(Other Services Taxed)				
76	Do you impose sales tax on other services listed	174	X	AL, AR, MS, VA,

Source: FTA 1996 Taxation of Services Survey

Appendix 4

Notes on State Taxation of Services

Number	ALABAMA
29, 30, 37	Exempt from sales tax. Subject to separate utility tax. Interstate telephone not taxed.
31, 39	Exempt from sales tax. Subject to 4% tax on cellular radio/telecommunications.
32, 34, 40, 41, 42	Exempted from sales tax. Subject to separate utility tax.
57, 71, 83, 132	Rental tax.
68	Parts and materials only are taxable.
86	Taxed if a retail sale of tangible personal property; exempt if only sale of interior design services.
92, 93, 94	Duplication of customer's originals are taxable; service provider developed material is exempt.
107, 108	The sale of software, whether canned, packaged or custom is considered as providing a service and is not subject to tax when sold. The materials and supplies used in performing the service are subject to sales or use tax.
141, 142, 143, 144, 145, 146, 147, 149, 150	Exempt from sales tax; taxed under separate rental levied on the lessor.
152, 153	Separate lodging tax of 4% unless county within Alabama Mountain Lakes Association area where tax is 5%. Over 30 days continuous occupancy is exempt.
154	Labor cost included in basis of final product.
156	Exempt if separately stated.
167	Materials taxed at 4% to service providers.
173	Identifiable parts and materials are taxable.
174	Cellular telecommunications services; tax basis -- recurring access charges and local air time only.
180	Tangible personal property taxed at point at which title passes.
185	Property purchased for the purpose of leasing is exempt from sales tax. (Wholesale sale)
186	Gross proceeds from leasing tangible personal property are subject to rental tax.
187	Taxable if delivered in the seller's vehicle (whether owned or leased). Exempt if shipping charges are separately stated, and if delivered by the US Postal Service or other common carrier.

Appendix 4 continued

Notes on State Taxation of Services

Number	ARKANSAS
GENERAL	Alteration or repair of motor vehicle, aircraft, farm machinery and implements, motors, tires and batteries, boats, electrical appliances, instruments, machines, bicycles, office equipment, and shoes are taxable.
8	Repair services are taxable.
19	Cleaning and repair are taxable.
29, 37	Intrastate telephone taxed.
30, 38	Interstate telephone taxed if billed to and beginning or ending in state.
32	Electricity sold and used in the manufacture of aluminum metal by electrolytic reduction is exempt as is electricity used in a qualifying steel mill.
40	First 500 KWH per month for residential customers with income not more than \$12,000 per year is exempt.
58	Tax on items of tangible personal property if separately stated; otherwise, total service is taxable.
62	No tax on reducing salons.
83	Rental of linen, taxable; cleaning of linen, exempt.
92	Treated as sale of tangible property.
110	Custom computer software services are taxable. Professional services are exempt.
114	Car washing is taxable. Coin-operated wash is exempt.
116	Maintenance and lubrication treated as repair.
119	Additional 2% tourism tax in addition to 4.625% sales tax.
120	Additional 2% tourism tax in addition to 4.625% sales tax. Gate admission fees to any rodeo are exempt if the admission fee is used exclusively for improvement, maintenance or operation of the rodeo
124	Admission to fairs run by government entities is exempt.
127	4.5% on private clubs if private club has ABC permit.
132	Included 1% "short-term rental tax. Short-term rentals are for less than 30 days.
141	Short-term rental tax of 1% in addition to sales tax. Short-term is up to 30 days. Does not apply to diesel trucks for commercial shipping, farm machinery and equipment for motor vehicles.
142, 147	Tax is not due on rentals for more than 30 days in AR. Gross receipts or use tax previously paid on item.
146	Short-term rental tax of 4.625% in addition to sales tax. Short-term is up to 30 days.
149	Short-term rental tax.

Appendix 4 continued

Notes on State Taxation of Services

Number	ARKANSAS
152	2% tourism tax in addition to 4% gross receipts tax.
153	2% tourism tax only applicable. Exempt from sales tax. Rental for less than month-to-month term.
154	Labor alone is exempt unless the sale price of the item includes the cost of labor.
156, 164	Repair to specific property (including motor vehicles) only taxable. Includes aircraft, farm mach., motors, tires, boats, electrical appliances, bicycles, office machines, etc.
158, 159, 160	Parts and labor used in the repair and construction of vessels, barges and towboats of at least fifty-ton load displacement are exempt.
161	Not taxable on railroad cars and equipment brought into state solely and exclusively for repairs.
166	Extra charge above warranty price is taxable.
168	Exempt if separated stated.
169	Except services taxable under ACA 26-52-301.
174	Services of repairing or maintaining computer equipment are taxable.
181	Sales to US Government entities only are exempt.
182	Only sales to Boys' Club, Girls' Club, 4H, FFA, Poets Round Table of Arkansas and charitable hospitals are exempt.
184	Legal burden of collecting and remitting sales tax on services is on seller.
185	Tangible personal property purchased for rental or leased is not taxed.
186	Rental for 30 days or more is exempt if the AR sales/use tax was paid on the purchase price.
187	Shipping charges are part of gross receipts and subject to the sales tax unless they are billed to the purchaser directly by a common carrier other than the seller.
188	A commission formed by the Gov. of Florida is currently studying taxability for access online.

Number	GEORGIA
15	Unless MARTA or city owned.
19	Tax on tangible personal property but not services performed.
31, 39	On local charge.
33, 41	Bottled water is taxable.
58	Based on 50% of total charges in lieu of tangible personal property not billed separately.
61	Taxable on tangible personal property sold.

Appendix 4 continued

Notes on State Taxation of Services

Number	GEORGIA
78	Taxable in connection with sale of tangible personal property.
125, 129	Permit required
126	Except college.
156	Labor exempt if billed separately.
158	Repair material and labor which is taxable.
161	Repair material and labor exempt if railroad stock is used principally to cross border of Georgia in interstate commerce.
168	Exempt if separately stated.
170	Exempt, unless fabrication labor which is taxable.
180	Location of related real or personal property.
185	Taxed on gross lease or rental charges.
187	Where delivery expenses are passed to the customer.

Number	KENTUCKY
32, 34, 35	Energy and energy-producing fuels in the course of manufacturing, processing, mining or refining is exempt to the extent that the energy costs exceed 3% of the cost of production.
36, 44	Sewer services are taxable; refuse collection is exempt.
53	In all cases of personal business services, equipment, parts and material only are taxable.
66	Intrastate.
71	Taxable as rental property.
105	Tire repair is exempt.
109, 110	See Revenue Policies 51P170, 51P171, 51P172.
112	Duplicated printed material is taxable based on full charge.
119	Admission tax is \$0.15.
120	Rides are not taxable.
141, 142, 143, 144, 149, 150	6% sales tax due on rental of tangible personal property.
156, 168	Repair and installation labor is exempt only if it is separately stated item to customers.
173	Fabrication taxable; repair exempt.
184	Seller must collect tax from buyer.
185	If used exclusively for rental purposes -- purchase for resale.

Appendix 4 continued

Notes on State Taxation of Services

Number	MISSISSIPPI
5	Grading, excavating, ditching, dredging or landscaping are taxable.
6	Not to exceed \$0.05 per ton with respect to sand, gravel, dirt, clay or limestone.
8	Drilling contracts in excess of \$10,000 are taxable at 3.5%.
10	A 3.5% tax is imposed on the value of contracts over \$10,000. For contracts under \$10,000, the 7% sales tax is imposed on material purchased by the contractor.
11	Electricians, electrical work, wiring, insulating, plumbing or pipe fitting, tin and sheet metal shops, woodworking and wood turning shops, and welding are taxable.
32, 34, 35	Agricultural and industrial use taxed at 1.5%.
66	Intrastate is taxable at 7%.
92, 94, 100	Considered sale of tangible property.
104	Testing of oil, gas, water and other mineral resources at 7%.
115	Taxable if related to automotive repair.
124	Admission to county, state or community fairs are exempt.
126	3% when conducted in publicly-owned enclosed coliseums and auditoriums, except athletic contests between college and universities. NCAA baseball tournaments are exempted. High school or grammar school events are exempt.
128	Admission charged by non-profit religious, charitable or educational organizations, nonprofit civic clubs or fraternal organizations are exempt. Cultural events sponsored by local music or charity associations are exempt.
130	3% when conducted in a publicly-owned enclosed coliseums and auditoriums. Baseball operated under professional league franchise is exempt. PGA is exempt.
146	An additional 6% motor vehicle Rental Tax is imposed on rental agreements with a term of not more than 30 continuous days (Sec. 27-65-231).
152	An additional county and city tax of 1% to 3% is imposed on rental agreements with a term of not more than 30 continuous days (Sec. 27-65-231).
165	If it exceeds \$10,000 it is taxable at 3.5% contractors tax. If it less than \$10,000, then only services are taxable under Section 27-65-23 are taxable at 7%.
168	Taxable at same rate as sales of tangible personal property.
169	Taxable if a taxable service is involved; exempt if not.
170	Custom creting or treating, custom meat processing, custom planning and custom sawing are taxed at 7%. Taxable custom processing included laundering, cleaning and pressing. All other custom processing services are exempt.
174	Mattress renovation (See Sec. 27-65-23).
180	Commercial domicile.

Appendix 4 continued

Notes on State Taxation of Services

Number	MISSISSIPPI
184	Seller
185, 186	See rule 30.
187	Taxable at same rate as sale of tangible personal property, see rule 42.

Number	MISSOURI
32	Manufacturing use in excess of 10% of production cost exempt if used in basic steelmaking.
34	Basic steelmaking is exempt.
57	Provided lessor pays the tax at the time diapers are purchased.
62	All fees and dues paid in or to a place of amusement or entertainment are taxable.
71	Lessor pays provided tax at time of purchase.
83	Provided the tax is paid when the lessor purchases the linens.
93	Photographic prints are taxable when price includes processing as well as tangible personal property, but not taxable when development service alone.
105	For customers who furnish their own tire carcasses for retreading.
132	Exempt if tax paid at time of purchase by lessor.
141, 142	Lessor may pay tax on purchase and lease free-of-tax, or buy item under resale exemption and collect tax on lease receipts. Must obtain authority for such election.
156	Labor is exempt if separately stated.
168	Installation labor is exempt if separately stated.
177	Use tax applies to tangible personal property purchased from out of state and brought into the state.
180	Seller's business location.
185	Lessor may pay tax on purchase and lease free-of-tax, or buy item under resale exemption and collect tax on lease receipts. Must obtain authority for such election.
187	All charges such as shipping and delivery incurred by or on behalf of the seller are subject to MO sales tax.
189	The provider of the service is responsible for the collection of the tax.

Appendix 4 continued

Notes on State Taxation of Services

Number	NORTH CAROLINA
General	A local levy of 2% is added to the basic state rate of 1% to 3%. Because of these exemptions, transactions are taxed at 1%, 2%, 3%, or 5%.
9	Typesetting exempt; sales of printing plated to manufactures for use in their printing press to imprint containers used to ship their manufactured products - 1% State, \$80.00 maximum tax per article.
15	Receipts are exempt. Buses are subject to the 3% state rate of highway use tax with maximum of \$1,000.
23	Parts and materials only taxable.
29	Intrastate long distance and private telecommunications service taxed at a rate of 6.5%. Not subject to local sales taxes. 3% rate applies only to local service.
31	Access charge and per minute charge. Intrastate toll charges subject to a 6.5% telecommunication service tax. Not subject to local sales tax.
32, 34	Effective 8/1/96, 2.83% on sales of electricity and piped natural gas to manufactures and commercial laundries and dry cleaners for the prescribed purposes. Not subject to local taxes.
33, 41	Exempt if delivered through mains. Subject to a 6% state and local tax if delivered in bottles.
35	Sales to commercial laundries, freezer locker plants, and to manufactures for use in connection with the industry or plant but not for residential heating purposes, is taxed at 1%. Not subject to local sales tax.
37	Intrastate long distance and private telecommunications service taxed at a rate of 6.5%. Not subject to local sales taxes. 3% rate applies only to local service.
39	Access charge and per minute charge. Intrastate toll charges subject to a 6.5% telecommunication service tax. Not subject to local sales tax.
40, 42	Not subject to local sales tax.
43, 107, 108	Subject to local sales tax.
54	Rug cleaning services exempt if performed in home.
57, 71, 83	Subject to 2% local sales tax.
58	First \$1,500 of charge is exempt. Subject to 2% local sales tax.
64	Subject to 2% local sales tax.
66	Taxable at 6.5% if intrastate.
68	Materials used in repair are taxable.
76	Sales of newspapers by newspaper street vendors and by newspaper carriers making door-to-door deliveries are exempt. Sales of newspapers by others are subject to the 4% State sales tax and the 2% local sales tax.

Appendix 4 continued

Notes on State Taxation of Services

Number	NORTH CAROLINA
77	Sales of magazines by magazine street vendors and by newspaper carriers making door-to-door deliveries are exempt. Sales of magazines by others are subject to the 4% State sales tax and the 2% local sales tax.
86	Retail sales of tangible personal property by interior designers are subject to the 4% State tax and also 2% local sales tax.
92, 93, 94	Considered tangible property. Subject to 2% local sales tax.
100	See Sales and Use Tax Administrative Rule .0805.
105	Material only taxable.
109	See G.S. 105-164.3(20).
110	Generally not taxable; but see G.S. 105-164.3(20).
119, 120, 124 126, 128, 130	Exempt under sales tax. Taxable under admissions tax statute.
123	Equipment rental by viewer is taxable at 4% state and 2% local sales tax.
132, 141, 142, 143, 144, 145	Subject to 2% local sales tax.
146	Exempt from sales tax. Vehicles subject to Highway Use tax. Short term is less than 365 continuous days.
147	Exempt from sales tax. Vehicles subject to Highway Use tax. Short term is less than 365 continuous days or longer.
150	\$1,500 maximum tax.
152	Exempt after 90 continuous days to the same person. Subject to 2% local sales tax.
154	Considered a part of the sales price; subject to 2% local sales tax.
155	Taxable at 1% or 4% whichever is applicable. If 4%, subject to 2% local sales tax.
156	Repair labor is exempt if separately stated on invoice from tangible personal property. Material is taxable at 1% or 4%, whichever is applicable.
158	Repair materials and labor exempt if vessel is engaged in interstate commerce.
162, 163, 164, 168	If separately stated on customer's invoice.
173	Fabrication labor is part of tangible personal property. Repair labor exempt if separately stated on customer's invoice.
179, 184	Tax is imposed on seller.
180	Commercial domicile.
181	Sale to US Government and NC Dept. of Transportation are exempt.
183	See Administrative Rule .4205.
187	Except when ownership to the property changes hands at seller's place of business, or shipped subject to FOB terms. All interstate transportation charges are exempt.

Appendix 4 continued

Notes on State Taxation of Services

Number	TENNESSEE
General	A county or city sale/use tax (½ state rate) may be adopted by referendum. These rates vary from 1% to 2.75%. Local tax Generally applies to first \$1,600 of cost of single article.
3	Horse or dog training is exempt.
4	Pet grooming is taxable on 15% of the gross charge for bathing and grooming. Exempt when rendered for medical purposes.
9	Typesetting if repair or installation of tangible personal property. Exempt if services performed on real property.
11	Taxable if repair or installation of tangible personal property. Exempt if services performed on real property.
19	Non-attendant lots operated by government entities exempt.
23	Cleaning and repair on boats, taxable. Boat docking and storage exempt.
30, 38	If originating or received instate and paid or billed to state address.
31	Intrastate calls.
32, 34, 35	Manufacturers pay rate of 1.5%. Exempt from local option tax.
33	Manufacturers pay rate of 1.5%. (1% state, 1/2% local).
39	Intrastate calls.
54	Cleaning of furniture is taxable; cleaning of carpet is exempt.
58	\$500 excluded.
60	Repair of tangible personal property.
62	Most memberships to health clubs are taxable. Charges for the use of tanning beds are taxable.
67	Court case held that Jazzercise lessons are subject to tax. (Services taxed at 6.75%)
69	Taxable if aboveground pool; considered tangible personal property. (Services taxed at 6.75%)
70	Charged for electronic transmission of return data to IRS is taxable telecommunications.
82	Taxable at 6% when tangible personal property is sold.
86	Interior decorating taxable if not separated from sales of tangible personal property.
100	If sign remains tangible, then all cost factors are taxable. (Installation taxed at 6.75%)
110	Services involved with the sale, lease, rental, creation or alteration of computer software is taxable. Consulting services not involving the delivery of software are exempt.
114	Car washing taxable, except coin-operated car washes are exempt.

Appendix 4 continued

Notes on State Taxation of Services

Number	TENNESSEE
115	Taxable if performing in anticipation of repair.
117	Non-attendant lots operated by government entities exempt.
118	Rust-proofing and undercoating are taxable.
121	Cash payments to play are taxable. Coin operated tables are exempt.
126	Admission to school (grades k-12) events are exempt.
154, 170	Taxable if the character of custom-owned property changed, e.g., garment alteration.
156	Repair services on real property are taxable except as to tangible personal property used. Repairs to certain machinery are exempt if delivered out of state after repair.
157	Parts and labor are exempt if airplane in interstate commerce.
158	Parts and labor are exempt if boat is in excess of 50 tons of displacement.
165	Labor applied to real property is exempt.
174	Only tangible personal property. If permanently installed in real property, then labor is exempt.
180	Seller location.
184	Seller may pass cost on to buyer.
185	Lessor may buy property for leasing purpose on resale certificate.
186	The leasing of all tangible personal property within Tennessee is subject to tax.
187	Taxable if shipping point is destination. Not taxed if shipping point is origin.
188, 190	This is taxed at 6% as a telecommunication. As always, the seller may pass the tax on to the buyer.

Number	VIRGINIA
General	Includes 1% state-wide local tax.
5	Sale of shrubbery, trees, etc., constitutes taxable sale.
31	Equipment is taxable at 4.5%. Separately stated installation labor is exempt.
32	Exempt if used directly in production.
33	Exempt if used directly in production or delivered via mains, lines or pipes.

Appendix 4 continued

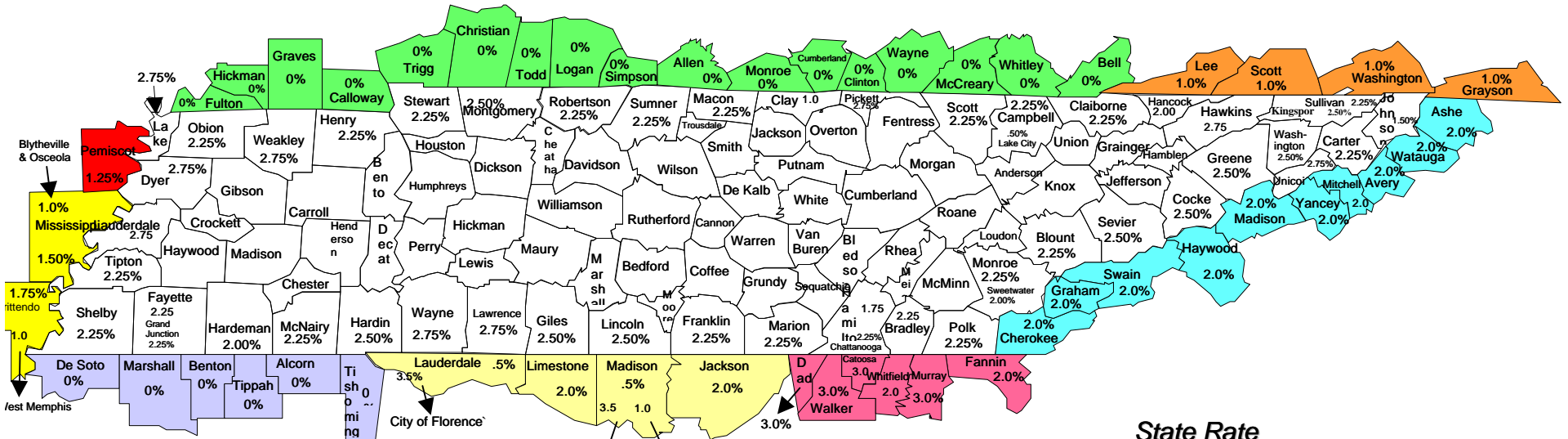
Notes on State Taxation of Services

Number	VIRGINIA
34	Industrial production exempt and gas delivered to customers through mains, lines or pipes exempt.
35	Industrial production exempt.
39	Equipment is taxable. Separately stated installation labor is exempt.
42	If delivered through mains or pipes.
43	May be subject to 1% local tax.
58	Tangible personal property only taxable.
60	Alterations taxable when part of sales of garment.
61	Exempt if performed by nonprofit organization.
86	Sale of tangible personal property is taxable at 4.5%
93	Sale of photographs, slides, prints, etc., are taxable.
100	Realty signs are exempt. Non-realty signs are taxable at 4.5% on the fabricated price. Separately stated installation labor is exempt.
105	Tire repair is exempt. Tire recapping is taxable at 4.5%.
107, 108, 110	Modification of prewritten software programs is not considered custom software and the sale of this program is taxable. However, separately stated labor or service charges in connection with the modification are exempt.
131	Only rentals to theaters, televisions and radio stations exempt. All other rentals taxable.
146	Exempt room sales tax. Subject to motor vehicle sales tax. Trucks are subject to 4% rental tax.
147	Exempt room sales tax. Subject to motor vehicle sales tax.
149, 150, 151	Exempt room sales tax. Subject to aircraft sales tax.
152, 153	Subject to the 4.5% sales tax if for less than 90 days; exempt if rental period is longer than 90 days.
156	Labor is exempt if separately stated.
161	Labor and material exempt when used directly in the delivery of common carrier services.
167	Labor only contracts are exempt. Parts and labor and parts only contracts are taxable.
168, 169	Installation services exempt if separately stated.
170	Tax applies to charges for fabrication of tangible personal property.
173	Fabrication, which does not involve repair, is taxable.

Appendix 4 continued
Notes on State Taxation of Services

Number	VIRGINIA
174	Watercraft lease -- charter 2%, meals 4.5%.
177	If sales is taxable, use is taxable.
179	Seller or purchaser liable.
180	Commercial domicile.
181	Federal government is exempt.
182	Generally, nonprofit organizations are subject to the tax on taxable services. Nonprofit organization must be exempt by state.
184	Seller or buyer may be held liable.
185	Purchase of equipment for rental or lease exempt. Tax applies to gross proceeds from the rental or lease customer.
186	Exempt service if an operator is provided with tangible personal property.
187	Freight-in is considered part of the merchandise sold, therefore taxable. Freight-out is not considered part of the merchandise cost, therefore exempt if separately stated. If not separately stated entire amount taxable.

State and Local Option Sales Rates for the Contiguous Counties



State Rate

4.0	Alabama	4.0	Missouri
4.0	Arkansas	6.0	North Carolina
4.0	Georgia	3.5	Tennessee
6.0	Kentucky	7.0	Virginia
7.0	Mississippi		

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Publication Authorization Number 316323;
700 copies. This public document
was promulgated at a cost of \$2.20 each.