



POLICY STATEMENT SALES TAX ON SERVICES

Background

The proposals to apply the sales tax to services, including real estate services, might appear to offer states an opportunity to increase revenues and increase equity in the tax system at the same time. As with most goods and services, instituting a tax on an economic activity is equivalent to raising the price and thus reduces the quantity demanded. The total impact is based on several reinforcing effects:

- Increased closing costs on the transfer of existing residential and nonresidential property,
- Increased cost of operating a brokerage business, and
- Increased cost of new single family and multifamily housing.

PAR Position

Applying the sales tax to real estate services is likely to reduce the demand for housing by effectively increasing the cost of purchasing a home.

Sales tax on services would:

- Increase closing costs and the cost of homeownership,
- Reduce the demand for housing,
- Make every component related to the real estate transaction more expensive and increase the total economic impact,
- Subject many real estate transactions to double taxes as they are already taxed as a result of the real estate transfer tax,
- Increase housing costs if the labor component of construction is included in the sales tax base, and
- Increase the costs of operating real estate brokerages if the sales tax is applied to services purchased by brokerage firms such as legal, accounting and data processing.

In short, including real estate services in the sales tax is likely to dampen economic activity without much positive impact on equity.

*Approved by the PAR Board of Directors
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