

## Service Sales Tax

**Service Sales Tax:** Illinois and Chicago impose a general sales tax on goods purchased, but not a general sales tax on services. Expanding the sales tax to cover a wide range of services has the potential to increase revenue, but depends on the implementation of the expansion.

### Background

General merchandise purchases in the City are subject to a combined sales tax rate that includes the City, State, Regional Transportation Authority, and Cook County sales taxes. The total combined rate is currently 9.25 percent. The City receives 2.25% of the revenue from this general sales tax (combination of 1% through the State and 1.25% from the City's home rule sales tax). Revenue from the City portion of these sales taxes is expected to generate \$651.3 million for the City in 2015.

Statewide, the services sector is a large and growing segment of the economy, with consumers spending over \$80 billion annually.<sup>1</sup> The types of services provided range from professional services, such as medical, dental, and legal services, to computer services, to construction services. For a more complete listing of service categories and their size, see Appendix A.

While Chicago and the State do not currently impose a general service sales tax, they do impose taxes on some specific services. An example of a service tax imposed by the City is the amusement tax, at rates of 9% and 5% depending on the amusement. In addition, the City receives revenue from taxes on services that are imposed at the State level, such as the municipal hotel tax (at a rate of 1%). Current taxes on services imposed by the City and State are expected to generate a total of \$1.16 billion for the City in 2015, as outlined in Appendix B.

### Revenue Impact

The amount of revenue generated by a service sales tax would depend on a number of factors, including the rate of the tax, what services are taxed, and whether existing City service sales taxes are preempted.

**Scenario A: Impose a general sales tax on all services, including those currently taxed.** This would expand the sales tax base to cover all service categories listed in Appendix A at the 9.25% rate. For those services already taxed, such as the amusement and hotel industries, this tax would be applied on top of the current service tax. For example, total amusement taxes are currently 9% or 5% depending on the event, all of which is revenue for the City. Applying a 9.25% service sales tax would increase the total tax rates to 18.25% and 14.25%, of which 11.25% and 7.25% would accrue to Chicago. Implementing the expanded sales tax in this manner could increase Chicago's revenue by \$330 million.

**Scenario B: Impose a general sales tax on services not already taxed.** As in Scenario A, this would expand the sales tax base to cover all service categories listed in Appendix A at the 9.25% rate. However the expansion would exclude those services currently being taxed; they would stay at their current rate. For example, in this scenario, amusement taxes would remain at 9% and 5%, all of which accrues to

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<sup>1</sup> In 2011, the Commission on Government Forecasting & Accountability published *Service Taxes, 2011 Update*. This is the primary resource for this analysis. <http://cgfa.ilga.gov/Upload/ServiceTaxes2011update.pdf>.

Chicago. This scenario could increase revenue for Chicago by \$250 million. The additional revenue for the City would be from the following categories:

- Professional Services (\$127 million)
- Construction (\$46 million)
- Finance, Insurance and Real Estate (\$50 million)
- Other (\$27 million)

**Scenario C: Impose a flat sales tax rate on all services.** This would expand the sales tax base to cover all service categories listed in Appendix A, but would eliminate the current taxes on services. While this would increase the number of service categories taxed, it would reduce the revenue the City receives because the City portion of the sales tax rate is only 2.25%. For example, the current City amusement tax rates are 9% and 5%, of which the City receives the full amount. Under this sales tax scenario the tax rate would be 9.25% for all amusements, but the City would only receive its sales tax share of 2.25%. This could result in a net loss of revenue for Chicago of approximately \$137 million. These losses would include:

- Admissions and Amusements (net loss of \$129 million)
- Automotive Services (net loss of \$128 million)
- Leases and Rentals (net loss of \$107 million)
- Other (net loss of \$23 million)

### **Legal Authority**

The City does not have the authority to impose a sales tax on services; a change in state law would be necessary to impose a service sales tax. As a result, control over which of the scenarios above is possible would also be controlled by the State.

### **Comparison to Other Cities**

The Commission on Government Forecasting and Accountability published a study on service taxes nationally in 2011. The study, which includes a survey of what services are taxed on a state by state basis, can be found here: <http://cgfa.ilga.gov/upload/servicetaxes2011update.pdf>. On average, states tax 56 of 167 different service categories. Illinois imposes taxes on 17 service categories.

**Appendix A: Service Categories by Size (in millions)<sup>2</sup>**

<b>Service Category</b>	<b>Services included</b>	<b>2011 Sales, IL</b>	<b>2011 Sales, Chicago<sup>3</sup></b>
Professional Services	medical, dental, legal, actg, architectural	\$28,275	\$5,655
Construction	carpentry, plumbing, painting, etc.	\$14,721	\$2,944
Finance, Insurance and Real Estate	real estate mgmt & sale, loans, mortgage	\$11,052	\$2,210
Admissions & Amusements	amusement, sports, movies, cable	\$6,006	\$1,201
Business Service*	marketing, advertising, printing, graphics	\$5,513	\$1,103
Computer Services	programming, data processing, info, ISP	\$2,932	\$586
Fabrication, Installation and Repair	labor charge on repair tangible property	\$2,488	\$498
Transportation Services	intrastate transporting people, courier svc	\$2,288	\$458
Personal Services	barber, laundry, healthclub, travel, funeral	\$1,821	\$364
Leases and Rentals	personal property, auto, flight, trailer park	\$1,727	\$345
Storage	warehousing, packing, boat mooring	\$1,019	\$204
Utility Service	industrial, residential garbage and sewer	\$868	\$174
Ag service	veterinary, landscaping	\$826	\$165
Automotive Services	parking, towing	\$506	\$101
Industrial and Mining Services	typesetting, oil field	\$9	\$2
<b>TOTAL</b>		<b>\$80,052</b>	<b>\$16,010</b>

<sup>2</sup> Based on information from *Service Taxes, 2011 Update*, published by the Commission on Government Forecasting & Accountability. <http://cgfa.ilga.gov/Upload/ServiceTaxes2011update.pdf>.

<sup>3</sup> Calculated as 20% of the Illinois total.

**Appendix B: Current Revenue from Taxes on Services**

<b>Service Tax</b>	<b>Authority</b>	<b>2015 Projected Revenue</b>
Electric use +infrastructure maintenance fee	State	\$187.6 million
Telecom	State	\$109.8 million
Natural gas revenue	State	\$95.2 million
Gas use tax	City	\$31.4 million
Cable franchise	Federal	\$28.0 million
911 Surcharge	State	\$122.9 million
Municipal hotel tax	State	\$21.1 million
Lease Tax	City	\$161.5 million
Motor vehicle lessor tax	State	\$6.4 million
Municipal auto rental	State	\$4.0 million
Amusement tax	City	\$119.9 million
Automatic amusement device tax	City	\$.6 million
Boat mooring tax	City	\$1.3 million
Off-track betting tax	State	\$.6 million
Foreign fire insurance	State	\$4.6 million
Parking tax	City	\$139.9 million
Ground transportation tax	City	\$9.2 million
<b>TOTAL</b>		<b>\$1.16 billion</b>