

From: Beth Gardner, CPA [mailto:bethg@keynotecpas.com]

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To: Rep. Sharkey, J. Brendan; Rep. Aresimowicz, Joe; Representative Themis Klarides; zRepresentative Vincent Candelora; Senator Looney; Sen. Duff, Bob; Sen. Fasano, Len; Sen. Witkos, Kevin

Subject: Kill the Tax on CPA Services

Dear Legislative Leadership,

A tax on CPA services is discriminatory, disastrous for business, and devastating for Connecticut. Kill the proposal to tax CPA services.

A tax on CPA services is discriminatory as this proposes to tax the service based on **who** is providing the service rather than the service itself. For example, if a CPA prepares a tax return for an individual, the CPA must assess and collect sales tax on the service. If the same tax return were prepared by a non-CPA, for instance an enrolled agent or H&R Block, the service would not be taxable. It is a myth that only the wealthy seek the services of a CPA. With the ever increasing complexity of the Internal Revenue Code, many more working families are turning to the expertise of a CPA to have their income tax returns prepared. Another example of the discriminatory nature of this proposal is shown in the area of estate and probate administration. If I, as a CPA, prepare a Connecticut estate tax return, I must charge sales tax whereas an attorney who prepares the same Connecticut estate tax return does not. This puts me at a disadvantage.

A tax on CPA services is disastrous for business in Connecticut. A tax on services would hurt small businesses. In a time when businesses are cutting expenses to the bone to save their employees' jobs, a sales tax on business services would add yet another cost to "the cost of doing business in Connecticut."

It puts small businesses at risk and potentially drives them and the jobs they provide underground. Higher taxes on certain services could lead to a do-it-yourself approach for many taxpayers. This could put many small businesses and their employees out of work. Additionally, it could drive others to move their operations into the underground economy, putting law-abiding service businesses at an unfair disadvantage. Both of these situations would reduce tax revenues to the general fund.

No other state in the northeast charges sales tax on professional services; in fact, only three states in the nation (Hawaii, South Dakota, and New Mexico) levy such a tax. These states average 1.5 million in population and therefore must tax a broader base. They are also isolated geographically from other population centers, and thus substitution of out-of-state service providers would be more challenging for business or individual taxpayers. A sales tax on services including tax return preparation services will only add to any perceptions of Connecticut as a "tax everything" state.

A tax on professional services doesn't just hurt small businesses, it hurts large, multi-state entities operating in Connecticut as well. Many large, multi-state entities contract services in Connecticut. Just one example - publicly held companies must undergo an independent audit of their financial statements. These companies will pay millions of dollars in a sales tax on their audit fees alone, and presumably would not welcome this additional, significant tax burden.

Believe it or not, the great majority of the employees of these multi-state companies are not Connecticut employees. As you move down the list of "Connecticut Public Companies Ranked by Size," you'll see many distinctly minority "Connecticut employee" ratios. A move of corporate headquarters across the border to New York would probably not require many of their employees to even change residence. At a

time when we are offering “please stay in Connecticut” financial incentive packages, a tax on professional services would send a very contrary message.

A tax on professional services can and has created administrative nightmares for businesses and government alike...

- The Connecticut General Assembly passed a similar law in the early 1990s and subsequently repealed it due to the frustration shared by CPAs and the Department of Revenue Services alike over the difficulty and expense of its administration, collection, and remittance.
- Three other states made the mistake of approving a tax on professional services. Florida repealed its six months after Below please find an email that I sent to my representative, Bill Aman. passage, Massachusetts two months after, and Michigan 17 hours after it became effective.

I have also emailed my representative, Bill Aman and am trying to email my Senator, Tim Larson, as well.

If you should have any questions, please do not hesitate to contact me.

Best regards,

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