

NAR Issue Summaries

State and Local Issues / Sales Tax on Services

NAR Committee:

State and Local Issues Policy Committee

What is the fundamental issue?

States generally levy three primary types of taxes—income taxes, property taxes, and sales taxes. State sales and gross receipts taxes are a significant revenue source for state governments.

[Recent reports](#) indicate that 32 percent of the nation's state tax revenue in the fourth quarter of 2020 came from sales and gross receipts taxes. This represented an increase of 4.6 percent in revenue to \$115.9 billion (± 1.9 billion) in the fourth quarter of 2020, from \$110.8 billion (± 0.9 billion) collected in the same quarter of 2019.

Accordingly, state sales taxes receive significant attention from state legislatures, especially when state budgets are tight. Most states assess a sales tax on many goods and some services. Only [Alaska, Delaware, Montana, New Hampshire and Oregon](#) do not have a state sales tax. However, even in some of those states, broadly based gross receipts taxes or corporate taxes based on sales may apply.

It is important to note that some states allow local governments to charge a [local sales tax](#) in addition to the statewide sales tax. If you want to know the specific tax liability of your business in your state, consult state Departments of Revenue for additional information.

Most of the services related taxes exclude real estate services or commissions, however many states have considered or are considering expanding the application of sales taxes of services to include a wide range of professional services such as real estate, legal assistance, accounting services, etc.

[Read more](#) about sales tax on services in our Hot Topic Alert.

I am a real estate professional. What does this mean for my business?

The application of sales tax to real estate services would be a direct tax on real estate commissions. Even if real estate commissions are exempted, it is possible that sales taxes would be applied to other services that relate to real estate transactions (title searches, inspections, etc.), thereby affecting the viability of these businesses and the affordability of real estate.

NAR Policy:

The National Association of REALTORS® (NAR) opposes the application of state or local sales tax to real estate services and other professional services, including real estate broker commissions, title searches, appraisals, home inspections, property management services, and any other services related to the real estate transaction. NAR finds that the impact of such taxation places an undue burden on homeowners and other consumers of real estate services; falls disproportionately on the real estate sector; and is ultimately detrimental to state and local economies.

Adopted, 2013. Reaffirmed, 2019.

[Check out](#) NAR'S Summary of State & Local Issues Policy Statements.

Opposition Arguments:

Opponents claim that tax increases need to be made. The service-based sector of the economy keeps growing which warrants a reliable stream of revenue for the government. Opponents also claim that tax policy is outdated and various professional service taxes must be adopted.

Legislative/Regulatory Status/Outlook

State tax policy leaders have said sales tax on professional services are inevitable because there are simply no other effective tax alternatives. In many cases, sales taxes already apply to "consumer" services such as haircuts, massages, etc. Nevertheless, recent proposals have sought to apply state sales tax to "professional" or "business" services--including real estate services. Such taxes would apply to commissions, title searches, appraisals, inspections, property management and potentially other aspects of a real estate transaction.

Current Legislation/Regulation (bill number or regulation)

[Check out](#) the Legislative proposals (enacted and pending) on sales tax on services by state.

Please note that this information is as of February, 2023.

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