

TESTIMONY FOR THE
STATE TAX PANEL
September 16, 2015

I am Paul W. Brady, Executive Director of the American Council of Engineering Companies of Connecticut (ACEC/CT), representing over 90 engineering firms and the Connecticut Society of Professional Engineers, representing over 250 licensed Professional Engineers in Connecticut.

On behalf of both organizations, I would like to testify about the expansion of the state's sales tax to include engineering and other professional services as proposed earlier this year by the Finance, Revenue and Bonding Committee's JFS vote on Governor's Senate Bill 946, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET. The proposal to expand the state's sales and use tax on engineering services was dropped from the legislation in the last week of the session. However, I wanted to bring this subject to the attention of the panel.

Engineering and other professional design services (architecture, land surveying, etc.) are currently exempt from the state's sales and use tax. Only two states tax engineering services.

This tax would increase the cost of construction projects and discourage businesses from locating or expanding in Connecticut. The sales tax would also impact the housing market, making housing less affordable for residents in the state or people seeking to relocate here.

Connecticut engineering firms would also find themselves at a competitive disadvantage. Project owners will find ways to have engineering services performed out of state. Out-of-state engineering firms will not collect the sales tax for Connecticut. The loss of work will mean fewer jobs for Connecticut engineers and support staff and lower income taxes for the state.

Many manufacturers in Connecticut now contract out some of their engineering services. A tax on engineering services will increase the cost of manufacturing in Connecticut, an industry bleeding jobs to other states and countries.

The tax discriminates against small businesses because small and emerging businesses often have a need to use outside engineering services that would be taxed, while larger companies with in-house expertise would not be subject to a tax for such services.

Another factor to consider is the fact that some sectors of the engineering industry work primarily for government agencies and their work would be exempt from the sales and use tax. About 80% of our members' revenue is from agencies like the state Department of Transportation and municipalities for the design of roads, bridges, wastewater treatment plants and other public works. Those agencies are exempt from the sales tax.

The tax would be very complicated to administer for the state and taxpayers, as the multi-state nature of customers and service providers in this industry often makes it difficult to determine where, when, and how the services take place. In fact, about 25 years ago when Connecticut taxed engineering services for a brief period of time, the Department of Revenue Services recommended that the tax be eliminated, in part because of the complexity in administering the tax, but also because of the impact on state businesses.

Thank you for your service to the state on this important topic. If we can provide any further information, please feel free to contact me.

Paul W. Brady, Executive Director

ACEC/CT and CSPE

pbrady@ctengineers.org

(860) 635-5522