

Services Revenue

Services Definition

The U.S. Bureau of Economic Analysis (BEA) defines all economic activities other than construction as either goods or services. According to the BEA, "services are products, such as medical care, that cannot be stored and are consumed at the place and time of their purchase."¹

Sales Taxation

In California, goods (tangible personal property) are generally subject to sales and use taxation unless specifically exempted, while most services are not. In 2015, Board of Equalization (BOE) staff received a legislative request to quantify revenues associated with taxation of services.²

Services Characteristics and Revenues

This article will examine three attributes of services:

- The current value of services in relation to all private economic activity;
- Growth of services over time;
- Tax revenues that could potentially be generated from extending the sales and use tax to all services currently not taxed. Staff did not consider administrative complexities, legal issues, compliance, changes in economic behavior, or other challenges to taxing services.

Summary

BOE research staff found that:

- Two major services sectors account for more economic value than all seven goods sectors combined.
- Services have grown much faster than goods over the past ten years - 39 percent, compared to 25 percent.
- Growth in services sectors has varied greatly, with some services increasing far above average, and others expanding more slowly than goods.

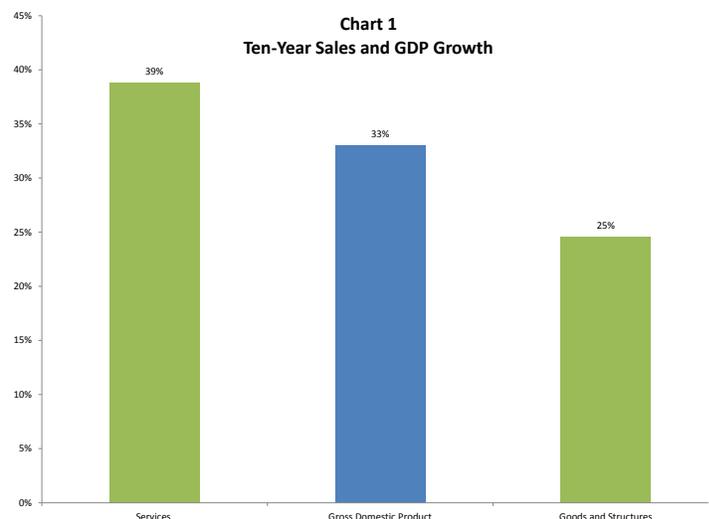
- Assuming virtually no exemptions and static economic behavior compliance, services could potentially generate as much as \$122.6 billion annually for state and local governments under the current average sales and use tax rate.
- Professional services, such as computer systems design, legal services, and engineering services, account for the largest portion of services revenues.³

Goods and Services Composition

The latest BEA data available show that goods comprise 34.2 percent of the value of private sector economic activity in California, while services comprise 65.8 percent (see Table 1). The Finance, Insurance, Real Estate, Rental, and Leasing industry sector dominates services industries, accounting for 23.9 percent of the private sector value. Professional and Business Services Information, Educational Services, Health Care, and Social Assistance services industry sector is also substantial.

Goods and Services Growth

As shown in Chart 1, over the past ten years U.S. services have grown faster than total gross domestic product (GDP) - 39 percent growth compared to 33 percent. Goods and structures spending has grown 25 percent over the same period.



¹ Concepts and Methods of the U.S. National Income and Product Accounts, U.S. Bureau of Economic Analysis, November 2012.

² Legal definitions of services for purposes of administering the sales and use tax law in California differ from the economic definition of services cited above. For simplicity, this article will focus on the Bureau of Economic Analysis (BEA) economic definition of services.

³ These industry categories (shown in Table 3) are defined by the U.S. Census Bureau. They differ slightly from those used by the (BEA) mentioned earlier and in Table 1.

Services Growth

A more detailed analysis of U.S. services growth shows that rent payments have increased more than any other service in the past ten years (Table 2). Rent is followed by spending on education, accommodations, communications, and health care, all of which have grown faster than the overall average of growth rate services. The slowest growing service is transportation, which includes spending on auto repairs, mass transit, and air travel. Professional services, such as legal services, accounting, and tax preparation have also grown more slowly than the average.

Table 1*

Composition of Goods and Services in the Economy

Industry, Sorted Within Goods and Services Categories	Percent of Private Sector CA Economy in 2013
Goods	
Manufacturing	12.4%
Wholesale Trade	6.8%
Retail Trade	6.3%
Construction	3.6%
Agriculture, Forestry, Fishing, and Hunting	2.4%
Utilities	1.6%
Mining	1.2%
Subtotal: Goods	34.2%
Services	
Finance, Insurance, Real Estate, Rental, and Leasing	23.9%
Professional and Business Services	15.1%
Information	9.3%
Educational Services, Health Care, and Social Assistance	8.0%
Arts, Entertainment, Recreation, Accommodation, and Food Services	4.5%
Transportation and Warehousing	2.7%
Other Services, Except Government	2.4%
Subtotal: Services	65.8%

Source: U.S. Bureau of Economic Analysis

Services Revenues

BOE research staff estimates that services could generate as much as \$122.6 billion annually in state and local tax revenues if all services were taxed and if economic behavior did not change (Table 3).⁴ To put this number in perspective, sales and use taxes on goods generated \$48.5 billion for state and local governments in fiscal year 2013-14.

Table 2*

Receipts Growth of All Goods and Selected Services (Ranked from High to Low)

Type of Product	Ten-Year Growth (2005-2014)
Rent Payments	72%
Education Services	65%
Accommodations	54%
Communications	52%
Health Care	51%
All Services	39%
Total Personal Consumption Expenditures	36%
Recreation Services	35%
Financial Services	34%
All Goods	29%
Personal Care and Clothing Services	26%
Household Maintenance	22%
Professional and Other Services	20%
Transportation Services	19%

Source: U.S. Bureau of Economic Analysis

Of the \$122.6 billion, Table 3 shows that more than half would come from three service categories: (1) Professional, Scientific, and Technical Services, (2) Health Care and Social Assistance, and (3) Finance.

⁴ Additional information on these estimates is provided on the BOE website, www.boe.ca.gov/legdiv/miscreports.htm.

*Detail may not add to subtotal or total due to rounding.

Professional Services

Table 4 provides a more detailed breakdown of employer revenues in Professional, Scientific, and Technical Services, the largest services category of Table 3.⁵ Computer systems design, law offices, and engineering services provide almost half of revenues in Professional Services.

Table 3*

Expected Revenues Generated from Extending the Sales and Use Tax to Currently Non-Taxable Services

Service	State and Local Revenues (\$ Billions, FY 2015-16)	Percent of Total Services Revenue
Professional, Scientific, and Technical Services	\$25.3	20.6%
Health Care and Social Assistance	21.5	17.5%
Finance	19.0	15.5%
Information	12.9	10.6%
Transportation and Warehousing	8.7	7.1%
Real Estate and Leasing	8.6	7.0%
Administrative and Support and Waste Management and Remediation Services	8.1	6.6%
Construction	7.4	6.0%
Other Services Except Public Administration	3.7	3.0%
Arts, Entertainment, and Recreation	3.6	2.9%
Accommodations	2.3	1.8%
Educational Services	0.7	0.6%
Automobile Dealers (Repair Services)	0.5	0.4%
Support Activities for Mining	0.2	0.2%
Support Activities for Agriculture and Forestry	0.2	0.1%
Total	\$122.6	100.0%

⁵ Table 4 shows services revenues derived from firms with employees, which provide over 90 percent of services revenues. Firms without employees are tabulated separately, and account for the remaining ten percent.

*Detail may not add to subtotal or total due to rounding.

Table 4*

Estimated Revenues, Professional, Scientific, and Technical Services (Employer Firms)

Industry (Sorted by Revenue)	State and Local Revenues (\$ Millions, FY 2015-16)	Percent of Total Sector
Computer systems design and related services	\$4,557	19.8%
Offices of lawyers	3,480	15.2%
Engineering services	3,143	13.7%
Research and development in the physical, engineering, and life sciences	2,998	13.1%
Accounting, tax preparation, bookkeeping, and payroll services	2,671	11.6%
Management consulting services	1,839	8.0%
Advertising agencies	575	2.5%
Architectural services	437	1.9%
Other scientific and technical consulting services	434	1.9%
Veterinary services	301	1.3%
Marketing research and public opinion polling	237	1.0%
Testing laboratories	208	0.9%
Environmental consulting services	188	0.8%
All other professional, scientific, and technical services	165	0.7%
Other services related to advertising	162	0.7%
Media buying agencies	161	0.7%
Direct mail advertising	152	0.7%
Public relations agencies	146	0.6%
Other Legal Services	140	0.6%
Graphic design services	135	0.6%
Interior design services	129	0.6%
Translation and interpretation services	104	0.5%
Outdoor advertising	87	0.4%
Photographic services	76	0.3%
Landscape architectural services	74	0.3%
Research and development in the social sciences and humanities	66	0.3%
Advertising material distribution services	63	0.3%
Media representatives	57	0.2%
Industrial design services	43	0.2%
Other specialized design services	43	0.2%
Surveying and mapping (except geophysical) services	41	0.2%
Building inspection services	33	0.1%
Drafting services	10	0.0%
Geophysical surveying and mapping services	7	0.0%
Total, All Professional, Scientific, and Technical Services	\$22,960	100%

Contact Us

Please contact us if you have questions or comments.

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Current and past issues of this publication are on our website:
www.boe.ca.gov/news/epcont.htm

To contact your Board Member, see
www.boe.ca.gov/members/board.htm

Online Resources

For more information about topics covered in this publication and previous issues, please visit any of the websites listed below.

California Department of Finance
www.dof.ca.gov

California Employment Development Department (EDD),
Labor Market Conditions in California
www.labormarketinfo.edd.ca.gov

Federal Reserve Bank of Philadelphia, Survey of
Professional Forecasters
www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/

National Association for Business Economics
www.nabe.com

U.S. Bureau of Economic Analysis
www.bea.gov

U.S. Bureau of Labor Statistics
www.bls.gov/cpi

U.S. Census Bureau
www.census.gov