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TO: Senator Donovan and Members of the Senate Assessment and Tax Committee

FROM: Hans Nettelblad, AIA, President

RE: SB 376 – Opposition to State Tax on Architectural Services

Good Morning Senator Donovan and Members of the Committee. I am Hans Nettelblad, AIA, President of the American Institute of Architects in Kansas. Thank you for allowing us to testify on tax policy.

AIA Kansas is a statewide association of architects and intern architects. Most of our 600 members work in over 100 private practice architectural firms designing a variety of project types for both public and private clients. Our members are designing tomorrow's buildings today, aiming to meet the "triple bottom line:" buildings that are affordable, protect the health of the building occupants, and respect our environment.

Today the design and construction industry is the hardest hit in the current economic climate. Up to 25% of architects are unemployed and a recent poll told prospective students to avoid architecture schools as the prospects for future employment was grim. Due to the economic downturn and subsequent tight credit markets, financing for projects is much less available, with the consequent lack of work making the market that much more competitive, which in turn has driven fees down making business less profitable. AIA Kansas strongly opposes SB 376 which places sales tax on architectural services.

The addition of a sales tax would present only another hindrance to development and consequently more friction to an already slowed economic recovery in Kansas. On a larger scale, AIA Kansas is greatly concerned that a sales tax of this sort would inhibit new businesses and projects from coming into the State, due to the increased tax they would incur. Kansas needs to remain competitive with other states for new business and construction, and the 'cost premium' could eliminate Kansas from the competition.

Many of our firms compete for work in other states. A sales tax on services will place Kansas firms at a competitive disadvantage with the out-of-state firms, who aren't subject to this same tax – none of the surrounding states have enacted similar legislation, and for good reason. The additional cost of sales tax on architectural services will cause many Kansas clients to seek services from outside our state to avoid increased 'soft costs' for their projects.

Architectural services are usually accomplished by a team of design firms led by the architect, conducted for the owner via a single contract with the architect. Typically, the architect is the prime consultant, supported by his sub-consultants (structural/mechanical/electrical engineer, code consultant, food service consultant, etc.), usually representing 30-50% of the total fee paid by the owner. If **each** sub-consultant, charges sales tax on their services, these will invariably be added to the architect's fee. When the architect then bills the client, the total fees (architect and consultants) will also incur sales tax; thus 'pyramiding' the tax. In

order for the architect to minimize his costs to the owner, he likewise would seek consultants outside the state of Kansas to avoid paying the tax on their service fees. This tax would have a tremendous negative impact on development and local businesses on many different levels.

Moreover, this legislation signifies a tax on the health, safety, and welfare of the public. The purchase of design services generally is not discretionary, but rather is required to comply with building codes and state law. The cost of this tax will be passed on to the users of the project – whether it be a high-rise office building, low income housing, school, hospital, nursing home or municipal swimming pool – why would aspects of life safety in our buildings come with an added price?

In addition, asking state and local units of government to pay sales tax on their services doesn't make sense to us. Taking money from one account to pay another seems like a lot of work with no benefit.

We've all heard the rhetoric both on state and federal levels. More taxes is not the solution and certainly not the impetus for recovery; 'quick-fixes' such as this lack the necessary foresight and vision to secure our economic vitality. AIA Kansas believes the current taxing structure – approximately 1/3 from property, income and sales tax best serves our state in forging ahead; we strongly believe SB 376 is not in the best interest of the State or most certainly the design & construction industry.

Thank you for your time.