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State and Local Sales Tax Rates, Midyear 2017

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Key Findings

- Forty-five states and the District of Columbia collect statewide sales taxes.
- Local sales taxes are collected in thirty-eight states.
- The five states with the highest average combined state and local sales tax rates are Louisiana (10.02 percent), Tennessee (9.45 percent), Arkansas (9.34 percent), Washington (9.20 percent), and Alabama (9.03 percent).
- Sales tax rates differ by state, but sales tax bases also impact how much revenue is collected from a tax and how the tax affects the economy.
- Sales tax rate differentials can induce consumers to shop across borders or buy products online.

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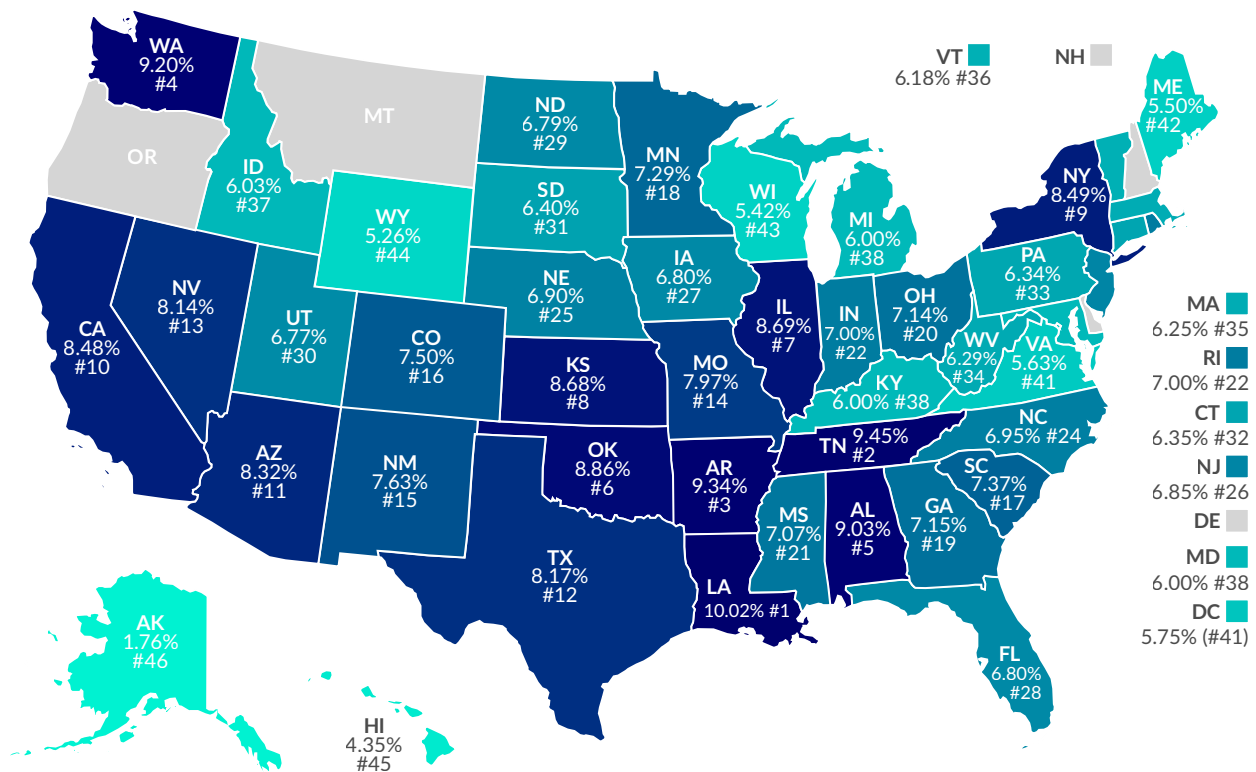
Introduction

Retail sales taxes are one of the more transparent ways to collect tax revenue. While graduated income tax rates and brackets are complex and confusing to many taxpayers, sales taxes are easier to understand; consumers can see their tax burden printed directly on their receipts.

In addition to state-level sales taxes, consumers also face local sales taxes in thirty-eight states. These rates can be substantial, so a state with a moderate statewide sales tax rate could actually have a very high combined state and local rate compared to other states. This report provides a population-weighted average of local sales taxes as of July 1, 2017, in an attempt to give a sense of the average local rate for each state. Table 1 provides a full state-by-state listing of state and local sales tax rates.

How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, July 1 2017



Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax. The sales taxes in Hawaii, New Mexico, North Dakota, and South Dakota have broad bases that include many business-to-business services. Due to data limitations, sales taxes in local resort areas in Montana are not included. Salem County, New Jersey is not subject to the statewide sales tax rate and collects a local rate of 3.4375%. New Jersey's average local score is represented as a negative.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department Websites



Combined Rates

Five states do not have statewide sales taxes: Alaska, Delaware, Montana, New Hampshire, and Oregon. Of these, Alaska and Montana allow localities to charge local sales taxes.¹

The five states with the highest average combined state and local sales tax rates are Louisiana (10.02 percent), Tennessee (9.45 percent), Arkansas (9.34 percent), Washington (9.20 percent), and Alabama (9.03 percent).

The five states with the lowest average combined rates are Alaska (1.76 percent), Hawaii (4.35 percent), Wyoming (5.26 percent), Wisconsin (5.42 percent), and Maine (5.5 percent).

State Rates

California has the highest state-level sales tax rate, at 7.25 percent.² Four states tie for the second-highest statewide rate, at 7 percent: Indiana, Mississippi, Rhode Island, and Tennessee. The lowest non-zero, state-level sales tax is in Colorado, which has a rate of 2.9 percent. Five states follow with 4 percent rates: Alabama, Georgia, Hawaii, New York, and Wyoming.³ No states changed their statewide sales tax rates since January.

Local Rates

The five states with the highest average local sales tax rates are Alabama (5.03 percent), Louisiana (5.02 percent), Colorado (4.60 percent), New York (4.49 percent), and Oklahoma (4.36 percent). Average local rates changed noticeably in several states based on rate adjustments in major cities. Among other local sales tax changes:

- In California, Los Angeles County implemented a voter-approved 0.5 percentage point sales tax rate increase effective July 1, 2017.⁴
- In Georgia, the City of Atlanta imposed a legislatively-authorized sales tax increase to fund the city's light rail system, effective March 1, and both Atlanta and Fulton County adopted additional sales taxes for transportation projects more generally, effective April 1.⁵
- In South Carolina, several counties adopted new 1 percentage point capital projects sales tax levies, while Charleston County increased its transportation sales tax from 0.5 to 1 percent, operative May 1, on the basis of voter referenda.⁶

1 Due to data limitations, this study does not include local sales taxes in resort areas in Montana.

2 This number includes a mandatory add-on tax which is collected by the state but distributed to local governments. Because of this, some sources will describe California's sales tax as 6.5 percent. A similar situation exists in Utah and Virginia.

3 The sales taxes in Hawaii and South Dakota have bases that include many services and so are not strictly comparable to other sales taxes.

4 California Board of Equalization, "New Sales and Use Tax Rates for Los Angeles County Operative July 1, 2017," <https://www.boe.ca.gov/pdf/1499.pdf>.

5 Georgia Department of Revenue, "Policy Bulletin SUT-2017-01" (Jan. 19, 2017), https://dor.georgia.gov/sites/dor.georgia.gov/files/related_files/document/LATP/Policy%20Bulletin/SUT-2017-01___New_Local_Taxes.pdf.

6 South Carolina Department of Revenue, "Local Tax Rate Changes Notification ST-588" (Jan. 26, 2017), https://dor.sc.gov/tax-index/sales-and-use/Sales%20Notices/ST588_1262017.pdf.

- In Nevada, Clark County (which includes Las Vegas) implemented a 0.1 percentage point sales tax increase for law enforcement personnel costs,⁷ while Washoe County (where Reno is the seat) adopted a 0.54 percentage point increase for school construction,⁸ both effective April 1. Washoe County's tax increase was ratified by the voters, while Clark County's was approved by the county commission under new legislative authorization.⁹

It must be noted that the border county of Salem County, New Jersey, is exempt from collecting the 6.875 percent statewide sales tax and instead collects a 3.4375 percent (half-rate) tax, a policy designed to help local retailers compete with neighboring Delaware, which foregoes a sales tax. We represent this anomaly as a negative 0.03 percent statewide average local rate (adjusting for population as described in the methodology section below), and the combined rate reflects this subtraction. Despite the slightly favorable impact on the overall rate, this lower rate represents an implicit acknowledgment by New Jersey officials that their 6.875 percent statewide rate is uncompetitive with neighboring Delaware, which has no sales tax.

7 Sean Whaley & Sandra Chereb, "Nevada Legislature Approves Sales Tax Hike for Clark County to Hire More Cops," *Las Vegas Review-Journal* (Oct. 14, 2016), <https://www.reviewjournal.com/news/politics-and-government/nevada/nevada-legislature-approves-sales-tax-hike-for-clark-county-to-hire-more-cops/>.

8 Trevon Millard, "Washoe Voters Pass Sales Tax Increase for School Construction," *Reno Gazette-Journal* (Nov. 8, 2016), <http://www.rgj.com/story/news/politics/2016/11/09/looking-likely-washoe-pass-sales-tax-increase-school-construction/93497640/>.

9 Whaley & Chereb, "Nevada Legislature Approves Sales Tax Hike for Clark County to Hire More Cops."

State and Local Sales Tax Rates as of July 1, 2017

State	State Tax Rate	Rank	Avg. Local Tax Rate (a)	Combined Rate	Combined Rank	Max Local Tax Rate
Alabama	4.00%	40	5.03%	9.03%	5	7.00%
Alaska	0.00%	46	1.76%	1.76%	46	7.50%
Arizona	5.60%	28	2.72%	8.32%	11	5.30%
Arkansas	6.50%	9	2.84%	9.34%	3	5.125%
California (b)	7.25%	8	1.23%	8.48%	10	2.50%
Colorado	2.90%	45	4.60%	7.50%	16	8.30%
Connecticut	6.35%	12	0.00%	6.35%	32	0.00%
Delaware	0.00%	46	0.00%	0.00%	47	0.00%
Florida	6.00%	16	0.80%	6.80%	28	2.00%
Georgia	4.00%	40	3.15%	7.15%	19	4.90%
Hawaii (c)	4.00%	40	0.35%	4.35%	45	0.50%
Idaho	6.00%	16	0.03%	6.03%	37	3.00%
Illinois	6.25%	13	2.44%	8.69%	7	4.75%
Indiana	7.00%	1	0.00%	7.00%	22	0.00%
Iowa	6.00%	16	0.80%	6.80%	27	1.00%
Kansas	6.50%	9	2.18%	8.68%	8	4.00%
Kentucky	6.00%	16	0.00%	6.00%	38	0.00%
Louisiana	5.00%	33	5.02%	10.02%	1	7.00%
Maine	5.50%	29	0.00%	5.50%	42	0.00%
Maryland	6.00%	16	0.00%	6.00%	38	0.00%
Massachusetts	6.25%	13	0.00%	6.25%	35	0.00%
Michigan	6.00%	16	0.00%	6.00%	38	0.00%
Minnesota	6.875%	5	0.42%	7.29%	18	1.50%
Mississippi	7.00%	1	0.07%	7.07%	21	1.00%
Missouri	4.225%	39	3.74%	7.97%	14	5.00%
Montana (d)	0.00%	46	0.00%	0.00%	47	0.00%
Nebraska	5.50%	29	1.40%	6.90%	25	2.00%
Nevada	6.85%	7	1.29%	8.14%	13	1.415%
New Hampshire	0.00%	46	0.00%	0.00%	47	0.00%
New Jersey (e)	6.875%	5	-0.03%	6.85%	26	3.4375%
New Mexico (c)	5.125%	32	2.51%	7.63%	15	4.125%
New York	4.00%	40	4.49%	8.49%	9	4.875%
North Carolina	4.75%	36	2.20%	6.95%	24	2.75%
North Dakota	5.00%	33	1.79%	6.79%	29	3.50%
Ohio	5.75%	27	1.39%	7.14%	20	2.25%
Oklahoma	4.50%	37	4.36%	8.86%	6	6.50%
Oregon	0.00%	46	0.00%	0.00%	47	0.00%
Pennsylvania	6.00%	16	0.34%	6.34%	33	2.00%
Rhode Island	7.00%	1	0.00%	7.00%	22	0.00%
South Carolina	6.00%	16	1.37%	7.37%	17	3.00%
South Dakota (c)	4.50%	37	1.90%	6.40%	31	4.50%
Tennessee	7.00%	1	2.45%	9.45%	2	2.75%
Texas	6.25%	13	1.92%	8.17%	12	2.00%
Utah (b)	5.95%	26	0.82%	6.77%	30	2.65%
Vermont	6.00%	16	0.18%	6.18%	36	1.00%
Virginia (b)	5.30%	31	0.33%	5.63%	41	0.70%
Washington	6.50%	9	2.70%	9.20%	4	4.00%
West Virginia	6.00%	16	0.29%	6.29%	34	1.00%
Wisconsin	5.00%	33	0.42%	5.42%	43	1.75%
Wyoming	4.00%	40	1.26%	5.26%	44	2.00%
D.C.	5.75%	(27)	0.00%	5.75%	(41)	0.00%

(a) City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate.

(b) Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax.

(c) The sales taxes in Hawaii, New Mexico, North Dakota, and South Dakota have broad bases that include many business-to-business services.

(d) Due to data limitations, sales taxes in local resort areas in Montana are not included.

(e) Salem County, New Jersey is not subject to the statewide sales tax rate and collects a local rate of 3.4375%. New Jersey's average local score is represented as a negative.

Sources: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites

The Role of Competition in Setting Sales Tax Rates

Avoidance of sales tax is most likely to occur in areas where there is a significant difference between two jurisdictions' sales tax rates. Research indicates that consumers can and do leave high-tax areas to make major purchases in low-tax areas, such as from cities to suburbs.¹⁰ For example, evidence suggests that Chicago-area consumers make major purchases in surrounding suburbs or online to avoid Chicago's 10.25 percent sales tax rate.¹¹

At the statewide level, businesses sometimes locate just outside the borders of high sales tax areas to avoid being subjected to their rates. A stark example of this occurs in New England, where even though I-91 runs up the Vermont side of the Connecticut River, many more retail establishments choose to locate on the New Hampshire side to avoid sales taxes. One study shows that per capita sales in border counties in sales tax-free New Hampshire have tripled since the late 1950s, while per capita sales in border counties in Vermont have remained stagnant.¹² Delaware actually uses its highway welcome sign to remind motorists that the state is the "Home of Tax-Free Shopping."¹³

State and local governments should be cautious about raising rates too high relative to their neighbors because doing so will yield less revenue than expected or, in extreme cases, revenue losses despite the higher tax rate.

Sales Tax Bases: The Other Half of the Equation

This report ranks states based on tax rates and does not account for differences in tax bases (e.g., the structure of sales taxes, defining what is taxable and nontaxable). States can vary greatly in this regard. For instance, most states exempt groceries from the sales tax, others tax groceries at a limited rate, and still others tax groceries at the same rate as all other products.¹⁴ Some states exempt clothing or tax it at a reduced rate.¹⁵

Tax experts generally recommend that sales taxes apply to all final retail sales of goods and services but not intermediate business-to-business transactions in the production chain. These recommendations would result in a tax system that is not only broad-based but also "right-sized," applying once and only once to each product the market produces.¹⁶ Despite agreement in theory,

10 Mehmet Serkan Tosun and Mark Skidmore, "Cross-Border Shopping and the Sales Tax: A Reexamination of Food Purchases in West Virginia," Working Paper 2005-7, Regional Research Institute, West Virginia University. <http://rri.wvu.edu/wp-content/uploads/2012/11/Tosunwp2005-7.pdf>. See also, Randolph T. Beard, Paula A. Gant, and Richard P. Saba, "Border-Crossing Sales, Tax Avoidance, and State Tax Policies: An Application to Alcohol," *Southern Economic Journal* 64, No. 1 (1997): 293-306.

11 Susan Chandler, "The sales tax sidestep," *Chicago Tribune* (July 20, 2008), http://articles.chicagotribune.com/2008-07-20/business/0807190001_1_sales-tax-tax-avoidance-tax-landscape.

12 Art Woolf, "The Unintended Consequences of Public Policy Choices: The Connecticut River Valley Economy as a Case Study," Northern Economic Consulting (Nov. 2010), <http://www.documentcloud.org/documents/603373-the-unintended-consequences-of-public-policy.html>.

13 Len Lazarick, "Raise taxes, and they'll move, constituents tell one delegate," *Marylandreporter.com* (Aug. 3, 2011), <http://marylandreporter.com/2011/08/03/raise-taxes-and-theyll-move-constituents-tell-one-delegate/>.

14 For a list, see Jared Walczak, Scott Drenkard, and Joseph Henchman, *2017 State Business Tax Climate Index*, Tax Foundation (Sept. 27, 2017), <https://taxfoundation.org/publications/state-business-tax-climate-index/>.

15 Liz Malm and Richard Borean, "How Does Your State Sales Tax See That Blue and Black (or White and Gold) Dress?" Tax Foundation (Feb. 27, 2015), <http://taxfoundation.org/blog/how-does-your-state-sales-tax-see-blue-and-black-or-white-and-gold-dress>.

16 Justin Ross, "A Primer on State and Local Tax Policy: Trade-Offs Among Tax Instruments," Mercatus Center at George Mason University (Feb. 25, 2014), <http://mercatus.org/publication/primer-state-and-local-tax-policy-trade-offs-among-tax-instruments>.

the application of most state sales taxes is far from this ideal.¹⁷

Hawaii has the broadest sales tax in the United States, but it taxes many products multiple times and, by one estimate, ultimately taxes 99.21 percent of the state's personal income.¹⁸ This base is far wider than the national median, where the sales tax applies to 34.46 percent of personal income.¹⁹

Methodology

Sales Tax Clearinghouse publishes quarterly sales tax data at the state, county, and city levels by ZIP code. We weight these numbers according to Census 2010 population figures in an attempt to give a sense of the prevalence of sales tax rates in a particular state.

It is worth noting that population numbers are only published at the ZIP code level every ten years by the U.S. Census Bureau, and that editions of this calculation published before July 1, 2011, do not utilize ZIP code data and are thus not strictly comparable.

It should also be noted that while the Census Bureau reports population data using a five-digit identifier that looks much like a ZIP code, this is actually what is called a ZIP Code Tabulation Area (ZCTA), which attempts to create a geographical area associated with a given ZIP code. This is done because a surprisingly large number of ZIP codes do not actually have any residents. For example, the National Press Building in Washington, D.C., has its own ZIP code solely for postal reasons.

For our purposes, ZIP codes that do not have a corresponding ZCTA population figure are omitted from calculations. These omissions result in some amount of inexactitude but overall do not have a palpable effect on resultant averages because proximate ZIP code areas which do have ZCTA population numbers capture the tax rate of those jurisdictions.

Conclusion

Sales taxes are just one part of an overall tax structure and should be considered in context. For example, Washington state has high sales taxes but no income tax, whereas Oregon has no sales tax but high income taxes. While many factors influence business location and investment decisions, sales taxes are something within policymakers' control that can have immediate impacts.

¹⁷ For a representative list, see Walczak, Drenkard, and Henchman, *2017 State Business Tax Climate Index*.

¹⁸ John Mikesell, "The Disappearing Retail Sales Tax," *State Tax Notes* (Mar. 5, 2012): 777-791.

¹⁹ *Ibid.*