



State and Local Sales Tax Rates, Midyear 2018

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Key Findings

- Forty-five states and the District of Columbia collect statewide sales taxes.
- Local sales taxes are collected in 38 states. In some cases, they can rival or even exceed state rates.
- The five states with the highest average combined state and local sales tax rates are Tennessee (9.46 percent), Louisiana (9.45 percent), Arkansas (9.42 percent), Washington (9.19 percent), and Alabama (9.15 percent).
- Louisiana's statewide rate fell from 5.0 to 4.45 percent on July 1, 2018, as lawmakers decided to extend a portion, but not all, of an expiring 1 percent on the sales tax. Due to the change and a small reduction in local rates, the state no longer has the highest average combined rate in the country, narrowly edged out by Tennessee.
- 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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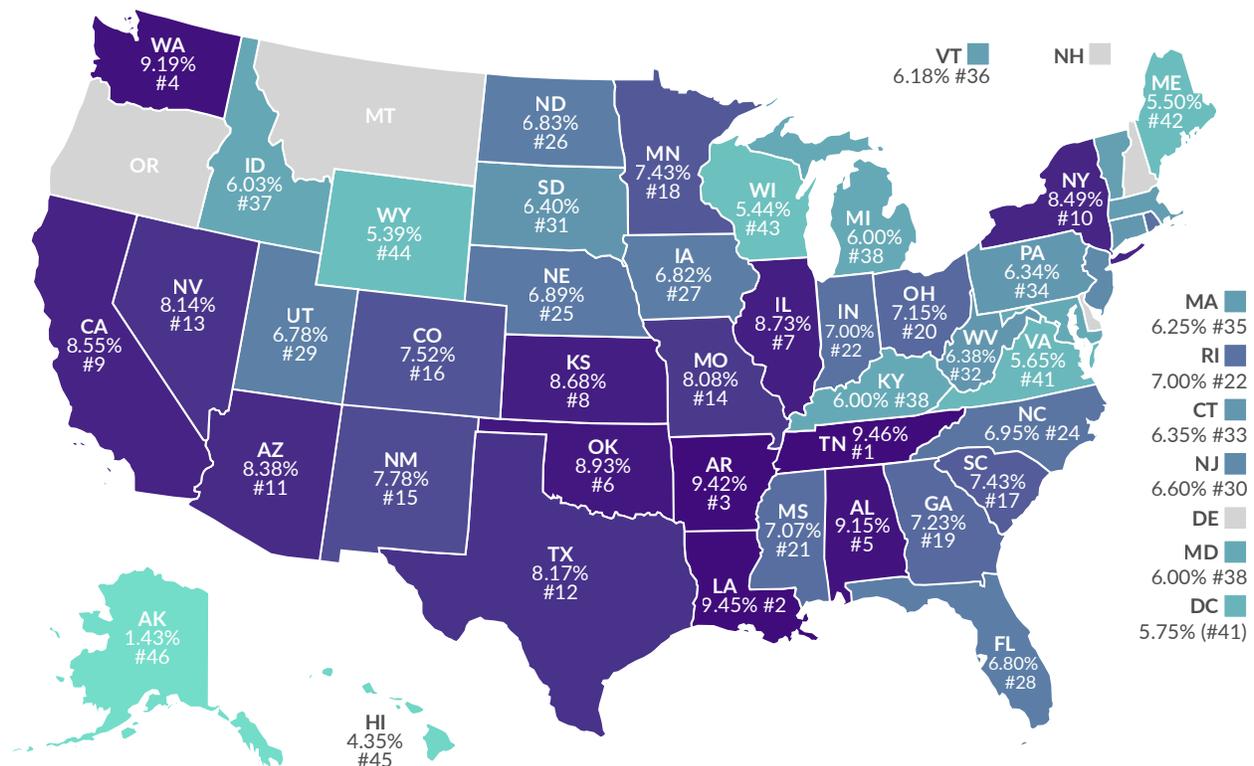
Introduction

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 38 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, 2018, 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 2018



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 Tennessee (9.46 percent), Louisiana (9.45 percent), Arkansas (9.42 percent), Washington (9.19 percent), and Alabama (9.15 percent). The five states with the lowest average combined rates are Alaska (1.43 percent), Hawaii (4.35 percent), Wyoming (5.39 percent), Wisconsin (5.44 percent), and Maine (5.50 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

Only Louisiana changed its state rate since January, reducing the rate from 5.0 to 4.45 percent. The former 5.0 percent rate was the product of a temporary one percentage point rate increase, due to expire (bringing the rate to 4.0 percent) at the end of fiscal year 2018. In special session, lawmakers voted to extend a portion of what is known in the state as the “clean penny,” resulting in a new state rate of 4.45 percent.⁴ High local rates yield a combined rate of 9.45 percent in the state, with the 0.55 percentage point reduction in the state rate and an 0.03 percentage point reduction in the local rate just enough to drop Louisiana below Tennessee (9.46 percent combined rate) for the highest combined rate in the country.

Local Rates

The five states with the highest average local sales tax rates are Alabama (5.15 percent), Louisiana (5.00 percent), Colorado (4.62 percent), New York (4.49 percent), and Oklahoma (4.43 percent). Average local rates rose the most in California, led by a one percentage point increase in the sales tax rate in Santa Barbara County in April,⁵ along with rate increases in other local jurisdictions. In Alaska, where only local governments may impose sales taxes, several additional localities implemented a tax.

It must be noted that some cities in New Jersey are in “Urban Enterprise Zones,” where qualifying sellers may collect and remit at half the 6.625 percent statewide sales tax rate (3.3125 percent), a policy designed to help local retailers compete with neighboring Delaware, which forgoes a sales

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

2 This number includes mandatory add-on taxes which are collected by the state but distributed to local governments. Because of this, some sources will describe California's sales tax as 6.0 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 Scott Drenkard and Ben Strachman, “Louisiana Legislature Partially Extends Sales Tax Hike, Fate of Online Sales Tax Still Uncertain,” Tax Foundation, July 12, 2018, <https://taxfoundation.org/louisiana-legislature-partially-extends-sales-tax-hike-fate-online-sales-tax-still-uncertain/>; Julia O'Donoghue, “Louisiana House approves ‘compromise’ sales tax, budget to end months of gridlock,” *The New Orleans Times-Picayune*, June 22, 2018, https://nola.com/politics/index.ssf/2018/06/louisiana_house_sales_tax_rate.html.

5 Vicky Nguyen, “Santa Barbara's new sales tax rate will take effect April 2018,” KEYT 3 News, Nov. 8, 2017, <https://www.keyt.com/news/money-and-business/santa-barbaras-new-sales-tax-rate-will-take-effect-april-2018/653551134>.

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 6.625 percent statewide rate is uncompetitive with neighboring Delaware, which has no sales tax.

State and Local Sales Tax Rates as of July 1, 2018

State	State Tax Rate	Rank	Avg. Local Tax Rate (a)	Combined Rate	Combined Rank	Max Local Tax Rate
Alabama	4.00%	40	5.15%	9.15%	5	7.50%
Alaska	0.00%	46	1.43%	1.43%	46	7.50%
Arizona	5.60%	28	2.78%	8.38%	11	5.60%
Arkansas	6.50%	9	2.92%	9.42%	3	5.13%
California (b)	7.25%	1	1.30%	8.55%	9	2.50%
Colorado	2.90%	45	4.62%	7.52%	16	8.30%
Connecticut	6.35%	12	0.00%	6.35%	33	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	3.23%	7.23%	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	2.48%	8.73%	7	4.75%
Indiana	7.00%	2	0.00%	7.00%	22	0.00%
Iowa	6.00%	16	0.82%	6.82%	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	4.45%	38	5.00%	9.45%	2	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%	6	0.55%	7.43%	18	2.00%
Mississippi	7.00%	2	0.07%	7.07%	21	1.00%
Missouri	4.225%	39	3.86%	8.08%	14	5.45%
Montana (d)	0.00%	46	0.00%	0.00%	47	0.00%
Nebraska	5.50%	29	1.39%	6.89%	25	2.00%
Nevada	6.85%	7	1.29%	8.14%	13	1.42%
New Hampshire	0.00%	46	0.00%	0.00%	47	0.00%
New Jersey (e)	6.625%	8	-0.03%	6.60%	30	3.31%
New Mexico (c)	5.125%	32	2.65%	7.78%	15	4.13%
New York	4.00%	40	4.49%	8.49%	10	4.88%
North Carolina	4.75%	35	2.20%	6.95%	24	2.75%
North Dakota	5.00%	33	1.83%	6.83%	26	3.50%
Ohio	5.75%	27	1.40%	7.15%	20	2.25%
Oklahoma	4.50%	36	4.43%	8.93%	6	6.50%
Oregon	0.00%	46	0.00%	0.00%	47	0.00%
Pennsylvania	6.00%	16	0.34%	6.34%	34	2.00%
Rhode Island	7.00%	2	0.00%	7.00%	22	0.00%
South Carolina	6.00%	16	1.43%	7.43%	17	3.00%
South Dakota (c)	4.50%	36	1.90%	6.40%	31	4.50%
Tennessee	7.00%	2	2.46%	9.46%	1	2.75%
Texas	6.25%	13	1.92%	8.17%	12	2.00%
Utah (b)	5.95%	26	0.83%	6.78%	29	2.65%
Vermont	6.00%	16	0.18%	6.18%	36	1.00%
Virginia (b)	5.30%	31	0.35%	5.65%	41	0.70%
Washington	6.50%	9	2.69%	9.19%	4	3.90%
West Virginia	6.00%	16	0.38%	6.38%	32	1.00%
Wisconsin	5.00%	33	0.44%	5.44%	43	1.75%
Wyoming	4.00%	40	1.39%	5.39%	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 (1.25%), 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 services.

(d) Special taxes in local resort areas are not counted here.

(e) Certain jurisdictions are not subject to the statewide sales tax rate and collect a local rate of 3.3125%. 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.⁶ 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.⁷

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.⁸ The state of Delaware actually uses its highway welcome sign to remind motorists that Delaware is the "Home of Tax-Free Shopping."⁹

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.¹⁰ Some states exempt clothing or tax it at a reduced rate.¹¹

6 Mehmet Serkan Tosun and Mark Skidmore, "Cross-Border Shopping and the Sales Tax: A Reexamination of Food Purchases in West Virginia," Regional Research Institute, West Virginia University, Research Paper 2005-7, September 2005, <http://rri.wvu.edu/wp-content/uploads/2012/11/Tosunwp2005-7.pdf>. See also, T. Randolph 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 (July 1997): 293-306.

7 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.

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

9 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/>.

10 For a list, see Jared Walczak, Scott Drenkard, and Joseph Bishop-Henchman, *2018 State Business Tax Climate Index*, Tax Foundation, https://files.taxfoundation.org/20171016171625/SBTCI_2018.pdf.

11 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>.

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.¹² Despite agreement in theory, the application of most state sales taxes is far from this ideal.¹³

Hawaii has the broadest sales tax in the United States, but it taxes many products multiple times and, by one estimate, ultimately taxes 105.08 percent of the state’s personal income.¹⁴ This base is far wider than the national median, where the sales tax applies to 34.25 percent of personal income.¹⁵

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 Bureau 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 10 years by the 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 U.S. 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, Tennessee has high sales taxes but no wage 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.

¹² Justin M. 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>.

¹³ For a representative list, see Jared Walczak, Scott Drenkard, and Joseph Bishop-Henchman, *2018 State Business Tax Climate Index*.

¹⁴ John Mikesell, “State Retail Taxes in 2012: The Recovery Continues,” *State Tax Notes* (June 24, 2013): 1003.

¹⁵ *Id.*