

# State and Local Sales Tax Rates Midyear 2014

By Scott Drenkard

Economist &  
Manager of State Projects

Liz Emanuel

Adjunct Scholar

Jordan Yahiro

Adjunct Scholar

---

## Key Findings

- 45 states collect statewide sales taxes.
  - 38 states collect local sales taxes.
  - The five states with the highest average combined state-local sales tax rates are Tennessee (9.45 percent), Arkansas (9.24 percent), Louisiana (8.91 percent), Washington (8.88 percent), and Alabama (8.85 percent).
  - Sales taxes rates differ by state, but sales tax bases also impact how much revenue is collected from a tax and how the tax effects the economy.
  - The District of Columbia successfully expanded its sales tax to include some services, which allowed reductions in its individual and corporate income tax rates.
  - Differences in sales tax rates cause consumers to shop across borders or buy products online.
-

## 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, the sales tax is easier to understand: people can reach into their pocket and see the rate printed on a receipt.

Less known, however, are the local sales taxes collected 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-local rate compared to other states. This report provides a population-weighted average of local sales taxes in an attempt to give a sense of the statutory local rate for each state. See Table 1 at the end of this Fiscal Fact for the full state-by-state listing of state and local sales tax rates.

## Combined Rates

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

The five states with the highest average combined rates are Tennessee (9.45 percent), Arkansas (9.24 percent), Louisiana (8.91 percent), Washington (8.88 percent), and Alabama (8.85 percent).

The five states with the lowest average combined rates are Alaska (1.69 percent), Hawaii (4.35 percent), Wisconsin (5.43 percent), Wyoming (5.49 percent), and Maine (5.50 percent).

## State Rates

California has the highest state-level rate at 7.5 percent.<sup>2</sup> Five states tie for the second-highest statewide rate with 7 percent each: Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee.

The lowest non-zero state-level sales tax is in Colorado, with a rate of 2.9 percent. Seven states follow with 4 percent: Alabama, Georgia, Hawaii, Louisiana, New York, South Dakota, and Wyoming.<sup>3</sup>

---

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

2 This number includes a mandatory 1 percent 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.

No changes to state-level sales taxes took effect in the first half of 2014. However, Rhode Island considered eliminating its 7 percent sales tax in 2013 and revisited the idea in January of 2014.<sup>4</sup> Had the proposal passed, Rhode Island would have become the first state ever to repeal its statewide sales tax.

On October 1, 2013, the District of Columbia lowered its sales tax from 6 percent to 5.75 percent.<sup>5</sup> In May of 2014, the D.C. Tax Revision Commission suggested raising this rate back up to 6 percent as a part of its comprehensive set of recommendations to the D.C. Council, which also included rate cuts in other parts of the tax code.<sup>6</sup> The Council decided against the sales tax rate increase, however, keeping Washington D.C.'s sales tax rate below the rates in neighboring Northern Virginia and Maryland and instead broadening the sales tax base slightly. This base expansion partially offset decreases in individual and corporate income tax rates.<sup>7</sup>

On August 5, 2014, Missouri voters rejected an increase of 0.75 percent to their state sales tax. The increase would have lasted for ten years and would have frozen the state's gas tax at its current rate over the same period.<sup>8</sup>

## Local Rates

The five states with the highest average local sales tax rates are Louisiana (4.91 percent), Alabama (4.85 percent), Colorado (4.51 percent), New York (4.48 percent), and Oklahoma (4.26 percent).

At the beginning of 2014, Mississippi had the lowest non-zero average local rate of 0.004 percent, attributable to the state's only local sales tax at the time: a 0.25 percent sales tax in the city of Tupelo. However, in a referendum on the local January 2014 ballot, residents of Jackson approved a 1 percent city-wide "special sales tax." The new tax took effect in the state capital on March 1, 2014, raising Mississippi's average local rate to 0.07 percent.<sup>9</sup>

Idaho now has the lowest non-zero average local rate of 0.03 percent, with only a handful of cities and counties levying a local sales tax on top of the statewide rate of 6 percent.<sup>10</sup>

4 Joseph Henchman, *Testimony before the Rhode Island Special Joint Legislative Commission to Study the Sales Tax Repeal*, Nov. 21, 2013, <http://taxfoundation.org/article/testimony-rhode-island-special-joint-legislative-commission-study-sales-tax-repeal>.

5 Scott Drenkard & Joseph Henchman, *D.C. Now Better than Virginia and Maryland on Sales Tax Rates*, TAX FOUNDATION TAX POLICY BLOG, Oct. 2, 2013, <http://taxfoundation.org/blog/dc-now-better-virginia-and-maryland-sales-tax-rates>.

6 DC Tax Revision Commission, *Recommendations: Final Report 2014*, [http://media.wix.com/ugd/ddda66\\_b54af5563fa54a17af9b41fc06aa672f.pdf](http://media.wix.com/ugd/ddda66_b54af5563fa54a17af9b41fc06aa672f.pdf).

7 Joseph Henchman, *D.C. Council to Vote on Tax Reform Package Today*, TAX FOUNDATION TAX POLICY BLOG, June 24, 2014, <http://taxfoundation.org/blog/dc-council-vote-tax-reform-package-today>.

8 Jason Hancock, *Missouri transportation sales tax defeated*, KANSAS CITY STAR, Aug. 5, 2014, <http://www.kansascity.com/news/government-politics/article1101536.html>.

9 Brian Eason, *9 in 10 Jackson, Miss., voters approve 1% sales tax*, USA TODAY, Jan. 15, 2014, <http://www.usatoday.com/story/news/politics/2014/01/15/jackson-ms-sales-tax-vote/4489851/>.

10 Idaho State Tax Commission, *Local Sales Tax*, <http://tax.idaho.gov/i-1117.cfm>.

Many cities and counties in Kansas have introduced or increased local sales taxes this year, bringing the state from 12th to 9th in the ranking of states with the highest combined state-local rates in the period since January 1, 2014. In November of 2014, residents of the state's largest city, Wichita, will vote on whether or not to approve a five-year, 1 percent citywide sales tax that would bankroll a bus route expansion and a "jobs development fund."<sup>11</sup> Two other cities in the Wichita metro area (Goddard and Mulvane) are also voting on new sales taxes of their own this fall.<sup>12</sup>

Only four states saw a net decrease in their average local sales tax rates in the first half of 2014: Georgia, New York, North Dakota, and Wyoming. The largest decrease was in North Dakota, where the average local sales tax rate dropped 0.06 percent from January 1 to July 1, 2014.

The highest local rates are in Homer and Seldovia, Alaska (7.5 percent); Tuba City, Arizona (7.125 percent); Snowmass Village, Colorado (7.1 percent); Seward, Alaska (7 percent); Brookwood and Toxey, Alabama (7 percent); and Lake Providence, Bernice, and Farmerville, Louisiana (7 percent).

Salem County, New Jersey is exempt from collecting the 7 percent statewide sales tax and instead collects a 3.5 percent local 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 acknowledgement by New Jersey officials that their 7 percent statewide rate is uncompetitive with neighboring Delaware, which has no sales tax.

## 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.<sup>13</sup> For example, strong evidence exists that Chicago-area consumers make major purchases in surrounding suburbs or online to avoid Chicago's 9.25 percent sales tax rate.<sup>14</sup>

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 the

11 Kelsey Ryan, *City Council votes to place proposed sales tax on November ballot*, WICHITA EAGLE, Aug. 5, 2014, <http://www.kansas.com/2014/08/05/3582950/city-council-votes-to-place-proposed.html>.

12 Bill Wilson, *Wichita among few Kansas cities without a local sales tax*, WICHITA BUSINESS JOURNAL, Jul. 1, 2014, <http://www.bizjournals.com/wichita/blog/2014/07/wichita-among-few-kansas-cities-without-a-local.html?page=all>.

13 Mehmet Serkan Tosun & Mark Skidmore, *Cross-Border Shopping and the Sales Tax: A Reexamination of Food Purchases in West Virginia* (Working Paper, 2005), <http://www.rri.wvu.edu/pdf/Tosunwp2005-7.pdf>. See also Randolph T. Beard, Paula A. Gant, & Richard P. Saba, *Border-Crossing Sales, Tax Avoidance, and State Tax Policies: An Application to Alcohol*, 65 SOUTHERN ECONOMIC JOURNAL 293 (1997).

14 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](http://articles.chicagotribune.com/2008-07-20/business/0807190001_1_sales-tax-tax-avoidance-tax-landscape).

northeast part of the country, 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 of the river 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.<sup>15</sup>

The state of Delaware actually uses its state border welcome sign to remind motorists that Delaware is the “Home of Tax-Free Shopping.”<sup>16</sup> State and local governments should be cautious about raising rates too high relative to their neighbors because doing so will amount to 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 non-taxable). 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.<sup>17</sup> Some states exempt clothing or tax it at a reduced rate.<sup>18</sup>

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.<sup>19</sup> Despite agreement in theory, the application of most state sales taxes is far from this ideal.<sup>20</sup>

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.<sup>21</sup> This base is far wider than the national median, where the sales tax base applies to 34.46 percent of personal income.<sup>22</sup>

15 Art Woolf, *The Unintended Consequences of Public Policy Choices: The Connecticut River Valley Economy as a Case Study*, Northern Economic Consulting, Nov. 2010, [http://vtdigger.org/vtdNewsMachine/wp-content/uploads/2011/02/20101101\\_woolfArtUnintended.pdf](http://vtdigger.org/vtdNewsMachine/wp-content/uploads/2011/02/20101101_woolfArtUnintended.pdf).

16 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/>.

17 For a list, see Tax Foundation, *2014 State Business Tax Climate Index*, TAX FOUNDATION BACKGROUND PAPER No. 68 (Oct. 9, 2013), <http://taxfoundation.org/article/2014-state-business-tax-climate-index>.

18 Joseph Henchman, *State Sales Taxes on Clothing*, TAX FOUNDATION TAX POLICY BLOG (Jan. 24, 2012), <http://taxfoundation.org/legacy/show/27915.html>.

19 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>.

20 For a representative list, see Tax Foundation, *2014 State Business Tax Climate Index*, TAX FOUNDATION BACKGROUND PAPER No. 68 (Oct. 9, 2013), <http://taxfoundation.org/article/2014-state-business-tax-climate-index>.

21 John Mikesell, *The Disappearing Retail Sales Tax*, STATE TAX NOTES, MAR. 5, 2012, 777-791.

22 *Id.*

In July of 2014, councilmembers in the District of Columbia voted to expand D.C.'s sales tax base to include previously untaxed services such as car washes, carpet cleaning, and bowling alleys. The expansion also brought fitness services under the sales tax umbrella, prompting health clubs and training studios to misleadingly label the measure a 'fitness tax' or 'yoga tax,' rather than simply the elimination of a pre-existing carve-out for the fitness industry.<sup>23</sup> As of this year, 22 states include fitness services in their sales tax bases.<sup>24</sup>

## Methodology

Sales Tax Clearinghouse publishes quarterly sales tax data at the state, county, and city level 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 Census Bureau, so the methodology in this version is slightly different than editions of this calculation published before July 1, 2011.

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., where the Tax Foundation is located, 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 on the whole should not have a palpable effect on resultant averages, because proximate ZIP code areas which do have a ZCTA population number assigned to them capture the tax rate of whatever jurisdiction the area is located in.

## 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; 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.

---

<sup>23</sup> Joseph Henchman, *Vida Fitness Spreads Half-Truths about DC Tax Cut Bill*, TAX FOUNDATION TAX POLICY BLOG, May 30, 2014, <http://taxfoundation.org/blog/vida-fitness-spreads-half-truths-about-dc-tax-cut-bill>.

<sup>24</sup> Nicole Kaeding, *The D.C. 'Fitness Tax' in Context*, CATO AT LIBERTY, Jun. 13, 2014, <http://www.cato.org/blog/dc-fitness-tax-context>.

## State and Local Sales Tax Rates as of July 1, 2014

State	State Tax Rate	Rank	Avg. Local Tax Rate (a)	Combined Tax Rate	Rank	Max Local
Alabama	4.00%	38	4.85%	8.85%	5	7.00%
Alaska	None	46	1.69%	1.69%	46	7.50%
Arizona	5.60%	28	2.56%	8.16%	12	5.125%
Arkansas	6.50%	9	2.74%	9.24%	2	5.50%
California (b)	7.50%	1	0.94%	8.44%	8	2.50%
Colorado	2.90%	45	4.51%	7.41%	15	7.10%
Connecticut	6.35%	11	None	6.35%	31	
Delaware	None	46	None	None	47	
Florida	6.00%	16	0.63%	6.63%	29	3.00%
Georgia	4.00%	38	2.99%	6.99%	23	4.00%
Hawaii (c)	4.00%	38	0.35%	4.35%	45	0.50%
Idaho	6.00%	16	0.03%	6.03%	36	3.00%
Illinois	6.25%	12	1.93%	8.18%	10	3.75%
Indiana	7.00%	2	None	7.00%	21	
Iowa	6.00%	16	0.78%	6.78%	27	1.00%
Kansas	6.15%	15	2.04%	8.19%	9	3.50%
Kentucky	6.00%	16	None	6.00%	37	
Louisiana	4.00%	38	4.91%	8.91%	3	7.00%
Maine	5.50%	29	None	5.50%	42	
Maryland	6.00%	16	None	6.00%	37	
Massachusetts	6.25%	12	None	6.25%	33	
Michigan	6.00%	16	None	6.00%	37	
Minnesota	6.875%	7	0.32%	7.19%	17	1.00%
Mississippi	7.00%	2	0.07%	7.07%	20	1.00%
Missouri	4.225%	37	3.56%	7.78%	14	5.00%
Montana (d)	None	46	None	None	47	
Nebraska	5.50%	29	1.29%	6.79%	26	2.00%
Nevada	6.85%	8	1.09%	7.94%	13	1.25%
New Hampshire	None	46	None	None	47	
New Jersey (e)	7.00%	2	-0.03%	6.97%	24	3.50%
New Mexico (c)	5.125%	32	2.18%	7.30%	16	3.5625%
New York	4.00%	38	4.48%	8.48%	7	4.875%
North Carolina	4.75%	35	2.15%	6.90%	25	2.75%
North Dakota	5.00%	33	1.62%	6.62%	30	3.00%
Ohio	5.75%	27	1.36%	7.11%	19	2.25%
Oklahoma	4.50%	36	4.26%	8.76%	6	6.50%
Oregon	None	46	None	None	47	
Pennsylvania	6.00%	16	0.34%	6.34%	32	2.00%
Rhode Island	7.00%	2	None	7.00%	21	
South Carolina	6.00%	16	1.13%	7.13%	18	2.50%
South Dakota (c)	4.00%	38	1.83%	5.83%	40	2.00%
Tennessee	7.00%	2	2.45%	9.45%	1	5.00%
Texas	6.25%	12	1.91%	8.16%	11	2.00%
Utah (b)	5.95%	26	0.73%	6.68%	28	2.10%
Vermont	6.00%	16	0.14%	6.14%	34	1.00%
Virginia (b)	5.30%	31	0.33%	5.63%	41	0.70%
Washington	6.50%	9	2.38%	8.88%	4	3.10%
West Virginia	6.00%	16	0.07%	6.07%	35	1.00%
Wisconsin	5.00%	33	0.43%	5.43%	44	1.75%
Wyoming	4.00%	38	1.49%	5.49%	43	2.00%
D.C.	5.75%	(27)	None	5.75%	(41)	2.00%

(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: California (1%), Utah (1.25%), Virginia (1%). We include these in their state sales tax.

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

(d) Due to data limitations, this table does not include sales taxes in local resort areas in Montana.

(e) Salem County is not subject to the statewide sales tax rate and collects a local rate of 3.5%. New Jersey's average local score is represented as a negative.

Sources: Sales Tax Clearinghouse, Tax Foundation calculations, state revenue department websites.

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.

©2014 Tax Foundation

Editor, Donnie Johnson  
Designer, Dan Carvajal

Tax Foundation  
National Press Building  
529 14th Street, NW,  
Suite 420  
Washington, DC  
20045-1000

202.464.6200

taxfoundation.org