

# State and Local Sales Tax Rates in 2015

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## 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 (9.26 percent), Alabama (8.91 percent), Louisiana (8.91 percent), and Washington (8.89 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.
- Differences in sales tax rates cause 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 reach into their pockets and see the rate printed on receipts.

In addition to state-level sales taxes, consumers face local-level sales taxes in 38 states as well. 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 report for the full state-by-state listing of state and local sales tax rates.

## 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 sales taxes.<sup>1</sup>

The five states with the highest average combined state-local sales tax rates are Tennessee (9.45 percent), Arkansas (9.26 percent), Alabama (8.91 percent), Louisiana (8.91 percent), and Washington (8.89 percent).

The five states with the lowest average combined rates are Alaska (1.76 percent), Hawaii (4.35 percent), Wisconsin (5.43 percent), Wyoming (5.47 percent), and Maine (5.50 percent).

## State Rates

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

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

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

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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.

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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 Alabama (4.91 percent), Louisiana (4.91 percent), Colorado (4.54 percent), New York (4.48 percent), and Oklahoma (4.27 percent).

At the beginning of 2014, Mississippi had the lowest non-zero average local sales tax rate at 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. 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 with 0.01 percent. Only a handful of cities and counties levy a local sales tax on top of the statewide rate of 6 percent.<sup>10</sup>

Many cities and counties in Kansas increased local sales taxes last year, bringing the state from 12th to 9th in the ranking of the highest combined state-local rates. In November of 2014, residents of the state's largest city, Wichita, voted down an initiative to approve a

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>.

five-year, 1 percent citywide sales tax that would support a bus route expansion and a “jobs development fund.”<sup>11</sup>

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>12</sup> For example, evidence suggests that Chicago-area consumers make major purchases in surrounding suburbs or online to avoid Chicago’s 9.25 percent sales tax rate.<sup>13</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 Northeast, 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.<sup>14</sup>

The state of Delaware actually uses its highway welcome sign to remind motorists that Delaware is the “Home of Tax-Free Shopping.”<sup>15</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.

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11 Scott Drenkard, *Results of 2014 State and Local Tax Ballot Initiatives*, TAX FOUNDATION TAX POLICY BLOG, Nov. 5, 2014, <http://taxfoundation.org/blog/results-2014-state-and-local-tax-ballot-initiatives>; 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 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*, SOUTHERN ECONOMIC JOURNAL, 64(1), 293-306 (1997).

13 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).

14 Art Woolf, *The Unintended Consequences of Public Policy Choices: The Connecticut River Valley Economy as a Case Study*, Northern Economic Consulting, November 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).

15 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/>.

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## 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>16</sup> Some states exempt clothing or tax it at a reduced rate.<sup>17</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>18</sup> Despite agreement in theory, the application of most state sales taxes is far from this ideal.<sup>19</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>20</sup> This base is far wider than the national median, where the sales tax applies to 34.46 percent of personal income.<sup>21</sup>

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>22</sup> As of this year, 22 states include fitness services in their sales tax bases.<sup>23</sup>

## 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.

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16 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>.

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

18 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>.

19 For a representative list, see Scott Drenkard & Joseph Henchman, *2015 State Business Tax Climate Index*, TAX FOUNDATION (Oct. 28, 2014), <http://taxfoundation.org/article/2014-state-business-tax-climate-index>.

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

21 *Id.*

22 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>.

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

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

Table 1. State and Local Sales Tax Rates as of January 1, 2015

| State            | State Tax Rate | Rank | Avg. Local Tax Rate (a) | Combined Tax Rate | Rank | Maximum Local Rate |
|------------------|----------------|------|-------------------------|-------------------|------|--------------------|
| Alabama          | 4.00%          | 38   | 4.91%                   | 8.91%             | 3    | 7.00%              |
| Alaska           | None           | 46   | 1.76%                   | 1.76%             | 46   | 7.50%              |
| Arizona          | 5.60%          | 28   | 2.57%                   | 8.17%             | 11   | 5.30%              |
| Arkansas         | 6.50%          | 9    | 2.76%                   | 9.26%             | 2    | 5.50%              |
| California (b)   | 7.50%          | 1    | 0.94%                   | 8.44%             | 8    | 2.50%              |
| Colorado         | 2.90%          | 45   | 4.54%                   | 7.44%             | 15   | 7.10%              |
| Connecticut      | 6.35%          | 11   | None                    | 6.35%             | 31   |                    |
| Delaware         | None           | 46   | None                    | None              | 47   |                    |
| Florida          | 6.00%          | 16   | 0.65%                   | 6.65%             | 29   | 1.50%              |
| Georgia          | 4.00%          | 38   | 2.96%                   | 6.96%             | 24   | 4.00%              |
| Hawaii (c)       | 4.00%          | 38   | 0.35%                   | 4.35%             | 45   | 0.50%              |
| Idaho            | 6.00%          | 16   | 0.01%                   | 6.01%             | 36   | 3.00%              |
| Illinois         | 6.25%          | 12   | 1.94%                   | 8.19%             | 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   | 2.05%                   | 8.20%             | 9    | 3.50%              |
| Kentucky         | 6.00%          | 16   | None                    | 6.00%             | 37   |                    |
| Louisiana        | 4.00%          | 38   | 4.91%                   | 8.91%             | 4    | 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    | 0.33%                   | 7.20%             | 17   | 1.00%              |
| Mississippi      | 7.00%          | 2    | 0.07%                   | 7.07%             | 20   | 1.00%              |
| Missouri         | 4.225%         | 37   | 3.58%                   | 7.81%             | 14   | 5.00%              |
| Montana (d)      | None           | 46   | None                    | None              | 47   |                    |
| Nebraska         | 5.50%          | 29   | 1.30%                   | 6.80%             | 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%             | 23   | 3.50%              |
| New Mexico (c)   | 5.125%         | 32   | 2.22%                   | 7.35%             | 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   | 1.56%                   | 6.56%             | 30   | 3.00%              |
| Ohio             | 5.75%          | 27   | 1.35%                   | 7.10%             | 19   | 2.25%              |
| Oklahoma         | 4.50%          | 36   | 4.27%                   | 8.77%             | 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   | 1.80%                   | 8.05%             | 12   | 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    | 2.39%                   | 8.89%             | 5    | 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   | 1.47%                   | 5.47%             | 43   | 2.00%              |
| D.C.             | 5.75%          | (27) | None                    | 5.75%             | (41) |                    |

(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 taxes.

(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 total rate of 3.5%. New Jersey's average local rate is represented as a negative.

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