

State and Local Sales Tax Rates in 2016

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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.
- The five states with the highest average combined state and local sales tax rates are Tennessee (9.46 percent), Arkansas (9.30 percent), Louisiana (9.0 percent), Alabama (8.97 percent), and Washington (8.90 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-level 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 January 1, 2016 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.

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), Arkansas (9.30 percent), Louisiana (9.01 percent), Alabama (8.97 percent), and Washington (8.90 percent).

The five states with the lowest average combined rates are Alaska (1.78 percent), Hawaii (4.35 percent), Wisconsin (5.41 percent), Wyoming (5.42 percent), and Maine (5.55 percent).

State Rates

California has the highest state-level sales tax rate at 7.5 percent.² 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.³

These rates held constant from July 1, 2015 to January 1, 2016. No state increased their state-level sales tax with the beginning of 2016.

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.

Local Rates

The five states with the highest average local sales tax rates are Louisiana (5.01 percent), Alabama (4.93 percent), Colorado (4.54 percent), New York (4.48 percent), and Oklahoma (4.28 percent).

Cook County, Illinois, home to Chicago, raised its county-level sales tax by 1 percent, from 1.75 percent to 2.75 percent, on January 1, 2016.⁴ The sales tax rate in the city of Chicago increased to 10.25 percent as a result. This gives Chicago the distinction of imposing the highest sales tax of any large city in the United States.⁵ The 10.25 percent rate includes sales taxes assessed by the state, county, city, and local transit agency. The large increase in Cook County's rate resulted in Illinois having the seventh highest combined state and local rate, up from 10th highest on July 1, 2015. This was the largest ranking change since the July 1, 2015 update.

Voters in Colorado Springs, Colorado approved a 0.62 percent increase in the city's sales tax effective January 1, 2016, increasing the city rate from 2.5 percent to 3.12 percent. The revenue is allocated for road maintenance and repair and is slated to sunset in five years.⁶

The sales tax in Clark County, Nevada also increased, effective January 1, 2016. The rate rose from 8.10 percent to 8.15 percent.⁷

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.

4 Dardick, Hal. "2016 Brings Tax Hikes for Chicago, Cook County, City Schools." *Chicago Tribune*. December 31, 2015.

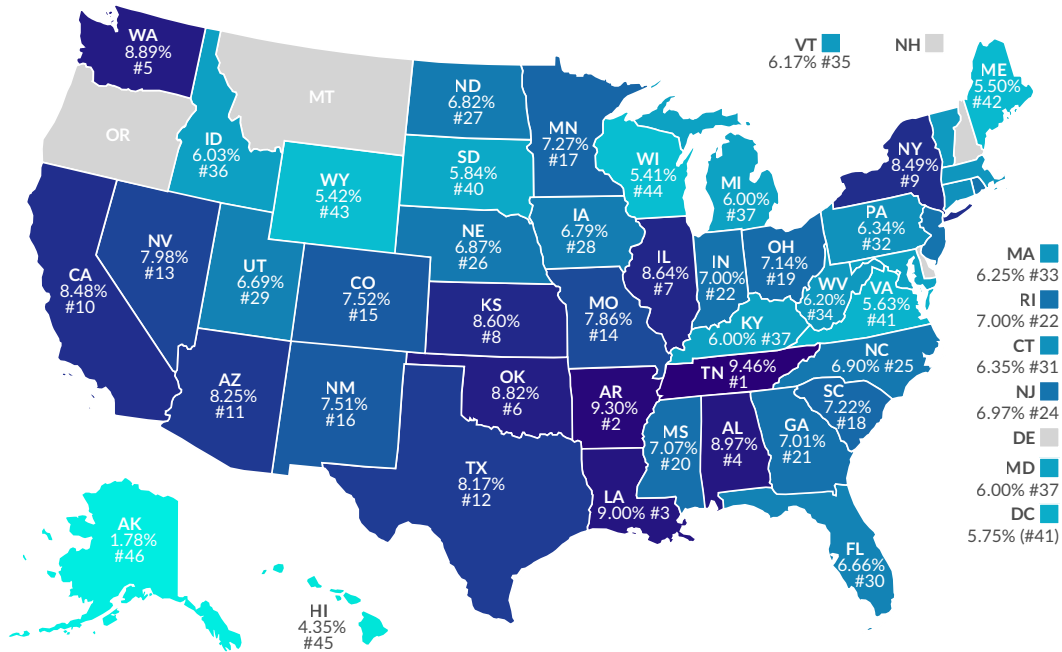
5 Walczak, Jared. "Chicago Adopts Highest Sales Tax Among Major Cities." Tax Foundation. July 16, 2015. <http://taxfoundation.org/blog/chicago-adopts-highest-sales-tax-among-major-cities>.

6 "Notice of Sales and Use Tax Rate Increase." City of Colorado Springs. November 5, 2015. <https://coloradosprings.gov/business/tax-information/sales-tax/sales-and-use-tax-rate-increase-effective-january-1-2016>.

7 Botkin, Ben. "Clark County Oks More Cops Sales Tax Increase." *Las Vegas Review-Journal*. September 1, 2015. <http://www.reviewjournal.com/news/las-vegas/clark-county-oks-more-cops-sales-tax-increase>.

How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, Jan. 1 2016



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 rates. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many business-to-business services. Due to data limitations, the table does not include sales taxes in local resort areas in Montana. Some counties in New Jersey are not subject to statewide sales tax rates and collect a local rate of 3.5%. Their average local score is represented as a negative.

Source: Sales Tax Clearinghouse; Tax Foundation calculations.



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.⁸ 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.⁹

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

⁸ Tosun, Mehmet Serkan, 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.

⁹ Chandler, Susan. "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.

have tripled since the late 1950s, while per capita sales in border counties in Vermont have remained stagnant.¹⁰

The state of Delaware actually uses its highway welcome sign to remind motorists that Delaware is the “Home of Tax-Free Shopping.”¹¹ 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 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.¹² Some states exempt clothing or tax it at a reduced rate.¹³

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.¹⁴ Despite agreement in theory, the application of most state sales taxes is far from this ideal.¹⁵

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.¹⁶ This base is far wider than the national median, where the sales tax applies to 34.46 percent of personal income.¹⁷

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.

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

11 Lazarick, Len. “Raise taxes, and they’ll move, constituents tell one delegate.” *Marylandreporter.com*. August 3, 2011. <http://marylandreporter.com/2011/08/03/raise-taxes-and-theyll-move-constituents-tell-one-delegate/>.

12 For a list, see: Jared Walczak, Scott Denkard, and Joseph Henchman. *2016 State Business Tax Climate Index*. Tax Foundation. November 17, 2015. <http://taxfoundation.org/article/2016-state-business-tax-climate-index/>.

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

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

15 For a representative list, see: Jared Walczak, Scott Drenkard, and Joseph Henchman. *2016 State Business Tax Climate Index*. Tax Foundation. November 17, 2015. [HTTP://TAXFOUNDATION.ORG/ARTICLE/2016-STATE-BUSINESS-TAX-CLIMATE-INDEX](http://taxfoundation.org/article/2016-state-business-tax-climate-index).

16 Mikesell, John. “The Disappearing Retail Sales Tax.” *State Tax Notes* (March 5, 2012): 777-791.

17 Id.

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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 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, DC, 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.

State and Local Sales Tax Rates as of January 1, 2016

State	State Tax Rate	Rank	Avg. Local Tax Rate (a)	Combined Rate	Combined Rank	Max. Local Tax Rate
Alabama	4.00%	38	4.97%	8.97%	4	7.00%
Alaska	none	46	1.78%	1.78%	46	7.50%
Arizona	5.60%	28	2.65%	8.25%	11	5.30%
Arkansas	6.50%	9	2.80%	9.30%	2	5.13%
California (b)	7.50%	1	0.98%	8.48%	10	2.50%
Colorado	2.90%	45	4.62%	7.52%	15	8.00%
Connecticut	6.35%	12	none	6.35%	31	
Delaware	none	46	none	none	47	
Florida	6.00%	16	0.66%	6.66%	30	1.50%
Georgia	4.00%	38	3.01%	7.01%	21	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%	13	2.39%	8.64%	7	4.75%
Indiana	7.00%	2	none	7.00%	22	
Iowa	6.00%	16	0.79%	6.79%	28	1.00%
Kansas	6.50%	9	2.10%	8.60%	8	4.00%
Kentucky	6.00%	16	none	6.00%	37	
Louisiana	4.00%	38	5.00%	9.00%	3	7.00%
Maine	5.50%	29	none	5.50%	42	
Maryland	6.00%	16	none	6.00%	37	
Massachusetts	6.25%	13	none	6.25%	33	
Michigan	6.00%	16	none	6.00%	37	
Minnesota	6.875%	7	0.39%	7.27%	17	1.50%
Mississippi	7.00%	2	0.07%	7.07%	20	1.00%
Missouri	4.225%	37	3.64%	7.86%	14	5.00%
Montana (d)	none	46	none	none	47	
Nebraska	5.50%	29	1.37%	6.87%	26	2.00%
Nevada	6.85%	8	1.13%	7.98%	13	1.30%
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	2.38%	7.51%	16	3.56%
New York	4.00%	38	4.49%	8.49%	9	4.88%
North Carolina	4.75%	35	2.15%	6.90%	25	2.75%
North Dakota	5.00%	33	1.82%	6.82%	27	3.50%
Ohio	5.75%	27	1.39%	7.14%	19	2.25%
Oklahoma	4.50%	36	4.32%	8.82%	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%	22	
South Carolina	6.00%	16	1.22%	7.22%	18	2.50%
South Dakota (c)	4.00%	38	1.84%	5.84%	40	2.00%
Tennessee	7.00%	2	2.46%	9.46%	1	5.00%
Texas	6.25%	13	1.92%	8.17%	12	2.00%
Utah (b)	5.95%	26	0.74%	6.69%	29	2.10%
Vermont	6.00%	16	0.17%	6.17%	35	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	0.20%	6.20%	34	1.00%
Wisconsin	5.00%	33	0.41%	5.41%	44	1.75%
Wyoming	4.00%	38	1.42%	5.42%	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 local rate of 3.5%. New Jersey's average local score is represented as a negative.

Note: D.C.'s ranks do not affect states' ranks, but the figures in parentheses indicate where it would rank if included.

Source: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites.