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State Sales and Use Taxes—2013

Mississippi adopted the first state sales tax in 1932. Since then, the sales tax has become one of the most important taxes in state revenue systems, consistently contributing approximately one-third of total state own-source revenues. Designed to tax consumption, sales taxes are levied on general retail sales transactions. Currently, 45 states, the District of Columbia and Puerto Rico impose a tax on general retail sales. Alaska, Delaware, Montana, New Hampshire and Oregon do not impose a state sales tax. The table below shows state sales tax rates in 2013 and the percentage of state revenues states received from the general sales tax in 2011.

Table 1. State Sales and Use Tax Rates, 2013 and Overall Reliance on Sales Taxes

State	Sales Tax Rate	Percent of Tax Revenue from Sales Taxes
Alabama	4%	25.2%
Alaska	No state sales tax	N/A
Arizona	6.6% (goes to 5.6 % June 1, 2013)	41.1%
Arkansas	6% (goes up to 6.5% July 1, 2013)	35.4%
California	7.5%	26.6%
Colorado	2.9%	23.0%
Connecticut	6.35% (7% on certain luxury goods)	24.2%
Delaware	No state sales tax	N/A

Florida	6%	59.4%
Georgia	4%	31.8%
Hawaii	4%	51.4%
Idaho	6%	36.4%
Illinois	6.25%	25.2%
Indiana	7%	42.1%
Iowa	6%	30.8%
Kansas	6.3% (5.7% July 1, 2013)	36.4%
Kentucky	6%	28.4%
Louisiana	4%	31.7%
Maine	5%	27.5%
Maryland	6%	24.4%
Massachusetts	6.25%	22.3%
Michigan	6%	40.3%
Minnesota	6.875%	24.6%
Mississippi	7%	43.7%
Missouri	4.225%	29.4%
Montana	No state sales tax	N/A
Nebraska	5.5%	33.4%
Nevada	6.85% (6.5% July 1, 2013)	46.3%
New Hampshire	No state sales tax	N/A
New Jersey	7%	30.0%
New Mexico	5.125%	37.8%

New York	4%	17.0%
North Carolina	4.75%	27.6%
North Dakota	5%	20.3%
Ohio	5.5%	30.9%
Oklahoma	4.5%	28.0%
Oregon	No state sales tax	N/A
Pennsylvania	6%	27.7%
Rhode Island	7%	30.1%
South Carolina	6%	36.3%
South Dakota	4%	58.6%
Tennessee	7%	57.0%
Texas	6.25%	50.5%
Utah	4.7%	33.7%
Vermont	6%	12.1%
Virginia	4%	19.9%
Washington	6.5%	60.8%
West Virginia	6%	23.5%
Wisconsin	5%	26.8%
Wyoming	4%	35.1%
District of Columbia	6%	Not available
Puerto Rico	5.5%	6.8%

Source: Rates from Commerce Clearing House, *State Tax Guide*, 2013. Reliance from NCSL calculations based on data from the US Bureau of the Census, 2011

State sales tax rates range from 2.9 percent in Colorado to 7.5 percent in California. Eleven states plus the District of Columbia levy the sales tax at the median rate of 6 percent. A majority of states allow local option (city, county or special district) sales taxes in addition to the state sales tax and Alaska authorizes only local option sales taxes. States with higher rates, such as Mississippi and Rhode Island, typically do not allow local option taxes. Some states with low rates, such as Colorado, allow extensive use of local option sales taxes. As such, state rates alone typically do not accurately represent the relative sales tax rates paid by taxpayers in most states.

One of the primary policy issues surrounding state sales taxes is that they are regressive. Taxpayers with lower incomes tend to spend a higher proportion of their incomes on consumption (these taxpayers also spend a larger share of their income on goods rather than services, which tend not to be taxed in many states). As a result, low-income taxpayers pay a higher proportion of their incomes in sales taxes than do middle- and upper-income taxpayers.

In an attempt to reduce the regressivity of the sales tax, some states have adopted specific exclusions for necessities, such as groceries and prescription drugs. Nearly every state sales tax exempts prescription medicine, and 31 states and the District of Columbia exempt groceries (although states such as Colorado and North Carolina permit local governments to tax groceries). And many of those that don't exempt food, tax it at a reduced rate. While food exemptions lessen the regressivity of the tax, food is the largest component of the sales tax base, and food exemptions produce large state revenue losses.

Another complicating factor of the sales tax concerns the disparate treatment of goods and services. The sales tax is designed to tax consumption, yet a growing share of the consumer expenditure dollar is spent on services that may escape taxation. The shrinking relative share of the consumer dollar spent on goods has forced states to raise the rate to maintain the sales tax share of state tax revenues. However, the two states that tried to dramatically expand the sales tax to services in the late 1970s and early 1980s—Florida and Massachusetts—met with such political resistance that the laws were repealed soon after enactment. And no states have since attempted a similar comprehensive expansion of the sales tax base. States do, however, vary significantly in identifying taxable and exempt transactions. Several states, including Connecticut, Iowa, South Dakota, Texas and West Virginia have gradually broadened their tax base and extended the sales tax to include a variety of consumer services.

Any discussion of sales taxes also must include mention of the use tax. Every state that taxes sales also imposes a state use tax at the same rate. The use tax was designed to capture revenues on purchases that are not subject to the state sales tax; namely, purchases from out-of-state vendors who are not responsible for collecting tax on interstate transactions. Most states impose a use tax on the storage, use or consumption of tangible personal property within the state upon which sales tax has not been paid. The state collects the use tax from out-of-state vendors that are registered with the state or from the purchaser in the state. As one might expect, collection of the use tax can be difficult. Furthermore, the increase in remote sales as a result of the Internet and expansion of electronic commerce has focused more attention on the problem of collecting use taxes and the resulting foregone revenues.

There are also equity issues around the proliferation of electronic commerce and the tax treatment of on-line sales versus "brick and mortar" sales. Under current law, many on-line retailers are not required to collect taxes on remote sales, which may give them a competitive advantage over main street retailers.

Under a line of U.S. Supreme Court cases, states cannot require the out-of-state retailer to collect and remit the sales tax unless the retailer has a physical presence, or nexus, in the taxing state. This restriction, however, may soon be reconsidered due to a collaborative effort by the private sector and state and local government officials. Representatives from these groups began meeting in 2000 to develop measures to design, test and implement a sales and use tax system that radically simplifies sales and use taxes so that remote collection is less burdensome. Their recommendations were published in the Streamlined Sales and Use Tax Agreement. Furthermore, federal legislation known as the Marketplace Fairness Act is currently pending before Congress. Should it become law, states will be authorized to collect sales taxes for online purchases.