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States Hike Sales Tax Rates to New Records

Berwyn, Pa. (April 9, 2009)
By WebCPA staff

[The economic crisis is forcing many states and cities to increase their sales tax rates to the highest average level ever, according to a new report.

Tax software developer Vertex reported that 554 U.S. cities changed their sales tax rates in 2008. Of those, 200 were newly imposed city tax rates and 307 were straight increases to existing city tax rates. Other changes in sales, transit and use taxes, combined with new and pending changes for 2009, indicate that state and local governments are scrutinizing tax rates in light of the current economic turmoil.



While the overall total of state, county, and city sales and transit tax changes reflected in the latest report jumped significantly, much of this increase is due to changes made in Iowa, which imposed a rate change and allowed their School Infrastructure Local Option taxes to expire. The combination of the new tax and expired SILO rates affected most of the taxing counties in Iowa, which are represented in this year's numbers.

Four states – Indiana, Iowa, Maryland and North Carolina – increased their state sales tax rates in 2008. Indiana's increase, from 6 to 7 percent, placed it among the highest state sales taxes nationwide, along with Mississippi, New Jersey, Rhode Island and Tennessee. The average state sales tax rate in the U.S. is currently 5.377 percent, which is the highest average rate recorded since Vertex began tracking the data in 1982.

As the first quarter of 2009 closes, two states – California and Utah – have already increased their state tax rates. Utah was the only state to decrease its sales tax rate in early 2008. Several additional states are discussing the possibility of future rate increases. Georgia, for example, is examining a state increase and Pennsylvania has several county/city sales tax increases up for discussion. Oregon, currently a non-taxing state, is considering imposing a new state sales tax.

The average county sales tax rate in the U.S. for 2008 declined to its lowest level (1.629 percent) since 2002, and the average city rate held steady at 1.568 percent. The highest city sales tax rate is found in Wrangell, Alaska (7 percent). The average combined sales tax rate edged slightly higher to 8.574 percent. The highest combined rate (12 percent) belongs to Arab, Cullman County, Alabama.

Since 1998, there have been 2,859 new sales and use taxes levied – an average of 260 per year. In the same time period, 5,341 changes were made to sales and use tax rates, averaging 486 per year. The combined total of new and changed sales and use tax rates for the period is 8,200, or an average of 746 per year.

For the complete report, visit www.vertexinc.com.

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