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Average sales tax hits record high Combined state and city rate nationwide tops 8.5 percent

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SAN FRANCISCO (CBS.MW) -- Even as taxpayers rub their hands in glee over lower federal taxes, more of their money is being siphoned away at the cash register by record-high state and city sales taxes.

The average combined sales tax rate imposed by states, counties and cities nationwide rose to 8.53 percent last year, up from about 8.4 percent in 2002, according to an analysis by Vertex, a maker of tax software for business. The average rate in 1981 was 6.52 percent.

"State and local jurisdictions that are grappling with budget deficits and a struggling economy are adding sales taxes or increasing their rates to recoup lost revenue," said Diana DiBello, director of tax at Vertex, in a press release.

Idaho, Ohio and Vermont upped state sales taxes by 1 percent to 6 percent, while New York's sales tax rose 0.25 percent to 4.25 percent in 2003.

The average sales tax imposed by states is 5.33 percent, up from 5.22 percent in 2002. Mississippi, Rhode Island and Tennessee tie for the highest state sales tax rate of 7 percent, while Alaska, Delaware, Montana, New Hampshire and Oregon impose no statewide sales tax.

But Alaska's non-existent state sales tax doesn't always ensure its residents a cheaper trip to the store: The highest city sales tax nationwide is 7 percent, and you'll find it in Wrangell, Alaska. Meanwhile, the highest combined state and city sales tax rate is 11 percent, charged in Arab, Ala.

Some 8,019 state, county and city jurisdictions nationwide charge sales tax, out of an estimated total of about 65,000 such entities, DiBello said.

Record number of tax-rate changes

States and cities also enacted a record number of rate changes, which usually signal sales tax increases. In 2003, 954 rate changes took place (66 were tax decreases), up from 735 a year earlier.

About 270 of those changes took place in one state, Kansas, but that's a one-time anomaly as that state works to comply with the Streamlined Sales Tax Project, an effort by 42 states to offset the sales-tax revenue lost through online commerce.

Excluding Kansas' tax rate changes, states and cities enacted fewer rate changes in 2003 compared with earlier years: 684 versus 735 last year, likely because of improving state economies.

The sales tax-rate changes "spike in 2001, and then you see it decreasing slightly," DiBello said in an interview. "You can mirror it to the way the economy is."

The changes in Kansas involved enacting local "use" taxes, which capture uncollected sales tax, often from items sold online. Use tax is sales tax that's collected from the buyer rather than the merchant. More states are adding lines on income-tax returns for taxpayers to report use tax. For more information on use taxes and how they might affect your tax filing this year, scroll to the section of [this CBS MarketWatch](#) story titled "What use is it anyway?"

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