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Average sales tax rate hits record level

BERWYN, Pa. — The 2004 Sales Tax Rate Report released by Vertex Inc., the world's leading provider of tax technology solutions, shows the average sales tax rate in 2004 reached a record high of 8.587 percent, up from 8.536 percent in 2003.

This increase completes a four-year upward trend in the average sales tax rate that began in 1999 when the average rate was 8.231 percent.

Filling in the gaps. "Local jurisdictions continue to function with less federal and state funding and look to sales tax rate increases as one method to help fill the gap for local program financing," said Diana DiBello, director of Tax at Vertex.

"The high number of tax decreases are tied mainly to election year politics, but were not enough to lower the overall effective tax rate."

In total, there were 764 sales tax rate changes in 2004 — the third highest year for changes since 1990 — and 237 new rates were established.

However, 2004 also had 160 tax rate decreases, the highest number of decreases since 1996.

The report, compiled annually by Vertex researchers for the past 15 years, provides a complete summary of sales tax rate changes at the state, county, city, and district levels nationwide.

Findings. The 2004 findings include the following data:

- Third highest year for tax rate changes since 1990: In 2004, there were 764 tax rate changes, up from 684 in 2003, making 2004 the third highest year for changes since 1990.

It is important to note that the figures for 2003 do not include the anomaly of 270 new compensating use tax rates implemented in Kansas that year to accommodate the state's Streamlined Sales and Use Tax Project sourcing changes.

- Highest number of tax rate decreases since 1996: The unusually high number of sales tax rate decreases — 160 compared to only 66 tax rate decreases in 2003 — can be attributed to several sources, including the passage of California's Proposition 57, a referendum to help the state reduce its deficit.

The proposition increased the state sales tax by .25 percent to fund the purchase of bonds, and set off a series of sales tax rate decreases at municipalities throughout California.

- First decrease in new/increased tax rates since 2000: Traditionally, election years cause an anticipated decrease in rate activity.

Predictions of fewer sales tax rate increases were certainly accurate in 2004 as the number of new and increased tax rates totaled 604 compared to 888 in 2003.

Keep in mind. One factor that will affect the volume of sales tax rate changes in the future is the Streamlined Sales and Use Tax Project. Adoption of the project changes the taxable point of sale from where goods are sold (origin) to

and use tax administration, and reduce the burden of tax compliance.

"Although it might not have an extraordinary impact on rate activity for 2005, we are certain to see more of an impact on nationwide sales tax rate changes resulting from SSTEP in the future," said DiBello.

"There are legislative changes scheduled to go into effect in 2005 that will impact tax base definition and result in sourcing changes that could lead to rate changes that go into effect in 2005 and beyond."

State to state. Additional 2004 sales tax data from the Report includes:

- Three states had state rate increases. Arkansas went from 5.125

percent to 6 percent, California went from 6 percent to 6.25 percent, and Virginia went from 3.5 percent to 4 percent.

- Mississippi, Tennessee, and Rhode Island have the highest state sales tax rates, at 7 percent. The average state sales tax rate is 5.318 percent.

- Wrangell, Alaska, has the highest city sales tax rate, at 7 percent. The average city sales tax rate is 1.583 percent.

- Arab, Ala., was the jurisdiction with the highest combined sales tax rate of 12 percent. The average rate combined rate is 8.587.

Read more. The complete report is available at www.vertexinc.com.