



Higher taxes hit shoppers

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By Dennis Cauchon, USA TODAY

Christmas shoppers will pay higher sales taxes in many places this holiday season, and it's local governments — not states — that are imposing them.

States trimmed sales tax rates slightly from 2003 to 2005, but the savings were more than offset by higher local sales tax rates. The trend has continued in 2006: Several hundred local sales tax hikes won approval from elected officials and voters.

Local governments use the tax to fund everything from roads to community centers and parks.

"It's a fairly rare occurrence to get a sales tax hike passed, but we did," says Paul Halley, mayor of Bryant, Ark., a Little Rock suburb. Voters approved a city sales tax increase from 2% to 3% on Oct. 1 to pay for more firefighters and a 106-acre athletic complex.

Sales tax collections for local government rose 7.2% in the first nine months of the year, reports the U.S. Bureau of Economic Analysis. That's more than twice the rate of inflation and faster than the growth rate for property or state sales tax collections.

Local taxes seldom fall once in place. From 1996 to 2005, local governments raised sales tax rates 6,256 times and cut them 693 times, according to **Vertex**, a Berwyn, Pa., company that provides tax software to merchants. State tax departments report the trend continues in 2006. In Texas, 62 local governments raised sales tax rates. Two have cut rates.

Sales tax rates are so high they are in "a dangerous area," says Rachelle Bernstein, a tax lawyer at the National Retail Federation, which represents merchants. Studies show that when tax rates reach about 10%, people make black-market purchases, shop on tax-free websites or take business to states that have lower rates or no tax, Bernstein says.

Local officials say the sales tax provides a stable source of money for parks, sewers and roads. Among the recent local sales tax hikes:

- Austin, Minn., will raise its sales tax a half-cent on the dollar April 1 to pay for flood control. It will raise \$700,000 a year, city administrator Jim Hurm says. "We had serious flooding in 2004 that took two lives and did \$12 million in property damage," he says.
- Denver will begin collecting a 0.12% sales tax Jan. 1 to pay for preschool tuition credits.
- Grapevine, Texas, will raise its sales tax April 1 from 7.25% to 8.25% to pay for more police and a commuter rail line to Fort Worth.
- Bernalillo County, N.M., will raise its sales tax one-quarter cent per dollar Jan. 1 to expand the local jail and health care.