SALES & USE TAX

Which States Tax and Why?

By Diane L. Yetter

Sales and use taxes touch virtually every area of a company from procuring goods, managing inventory, making sales, marketing, investing in assets, and business structure. Sales and use taxes impact the bottom line, and if not handled correctly could result in significant reductions in a business's profits.

Sales taxes were first enacted following the Depression as a taxing scheme to replace revenue losses from declining property taxes. Mississippi was the first state to enact a general sales tax in 1930. By 1938, 27 states had implemented a sales tax. During the years 1938 to 1947, no additional states enacted a sales tax. Tennessee resurrected the trend in 1947 and the trend continued through the 1960s. During this era, states found that sales and use taxes were much easier to implement and resulted in fewer ramifications than changes to or the implementation of an income tax.

Currently 45 states plus the District of Columbia impose a general sales tax. The five states without general sales taxes are: Alaska, Delaware, Montana, New Hampshire and Oregon. However, Alaska permits local sales taxes. Delaware imposes a rental and service tax. Most of the states also impose different excise, meal, or lodging taxes even though they don't impose a general sales and use tax.

Today, sales and use taxes are a significant revenue source for governmental authorities. In 2010, the average combined state and local sales and use tax rate was 9.6420 percent, the highest rate recorded since 1981. There has been a steady increase in the rates since 1981, and only one instance, in 1999, where the average has decreased (by 0.02 percent).

There are approximately 7,900 standard and non-standard sales and use tax rates imposed by more than 60,000 taxing jurisdictions. California has the highest state-level sales tax rate at 7.25 percent. Indiana, New Jersey, Tennessee, Mississippi, and Rhode Island have the second highest state-level sales tax rate of 7 percent.

When states first enacted their sales taxes, the tax was imposed only on in-state sales. There was no use tax. As businesses began to offer delivery services and customers realized they could avoid sales taxes by ordering products from businesses in a different state, the complimentary use tax was enacted. Currently, every state that imposes a general sales tax also imposes a use tax.

Sales and Gross Receipts taxes averaged approximately 48 percent of the total taxes collected in 2009. This is by far the leading state government tax, with personal income tax coming in second at approximately 34.4 percent. In 2009, state and local governments collected $342.2 billion from all types of sales, use, and gross receipts taxes. This is compared with state and local corporate income taxes, which amounted to $40.4 billion dollars, or about 6 percent of total state and local tax revenue (source: U.S. Bureau of the Census and the Federation of Tax Administrators). ❑

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