



OLR RESEARCH REPORT

August 3, 2012

2012-R-0357

STATE SALES TAXES

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You asked how (1) many states impose a sales tax and (2) Connecticut's sales tax compares to other states.

SUMMARY

The District of Columbia and all but five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) impose a state sales tax, ranging from 2.9% in Colorado to 7.25% in California. Connecticut imposes a 6.35% sales tax, which ranks as the 11th highest state sales tax rate.

At least two factors complicate comparisons of sales tax rates across states. The first is that many states allow counties and municipalities to levy sales taxes. Thus, the rates in these states vary across localities and, in some cases, the combined state and local rates are substantially higher than the state's base sales tax rate. When Connecticut is compared with other states based on combined state and local rates, its rank drops from 11th to 31st.

The other factor is that states levy the tax on different mixes of goods and services. Some states tax a broad range of goods and services, with few exemptions, while others tax relatively few. Connecticut's sales tax base is broader than that of surrounding states, but by one recent estimate, it is narrower than most states' sales taxes when taking into account its impact on the state's economic activity. A March 2012 *State Tax Notes* report estimates that 26.19% of Connecticut personal income

is spent on goods and services subject to the state's sales tax, compared to the national median of 34.5% (Mikesell, John. "The Disappearing Retail Sales Tax," *State Tax Notes*, March 5, 2012, pgs. 777-791).

While sales taxes across states differ widely, both in their rates and bases, they share several common features. In general, state sales taxes apply to all retail purchases of tangible personal property, except for those explicitly exempted, but only to specified services. States rely on vendors to consider the nature of the purchase, how it will be used, and the nature of the purchaser in determining the taxability of transactions. And all states that impose a sales tax also impose a use tax on taxable goods and services purchased in other jurisdictions for use in the home state.

TAX RATES

The District of Columbia and all but five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) impose state sales taxes. In some states, including Connecticut, only the state government levies a sales tax while in others, counties, municipalities, and other political subdivisions levy their own sales taxes. Table 1 shows the sales tax rate for each state and the District of Columbia, the average rate for political subdivisions (i.e., local rate) in those states where they levy the tax, and the combined state rate and average local tax rate.

The state rates range from 2.9% in Colorado to 7.25% in California. Five states have the second-highest state rate at 7%: Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee. Connecticut's 6.35% sales tax ranks as the 11th highest statewide rate.

Most states also allow counties and municipalities to levy sales taxes, which in some cases results in a substantially higher combined tax rate. Because the rates generally vary across localities within these states, Table 1 shows the state's average local rate weighted according to 2010 Census population figures, as calculated by the Tax Foundation.

The five highest combined rates are Tennessee (9.43%), Arizona (9.12%), Louisiana (8.86%), Washington (8.83%), and Oklahoma (8.68%). Among the states with a statewide sales tax, the five with the lowest average combined rates are Hawaii (4.35%), Maine (5%), Virginia (5%), Wyoming (5.18%), and Wisconsin (5.43%). When Connecticut is compared with other states based on combined state and local tax rates, its rank drops from 11th to 31st.

Table 1: State and Local Sales Tax Rates as of July 1, 2012

State	State		Avg. Local Rate	Combined State- Local Rate	
	State Tax Rate	Rank		Rate	Rank
Alabama	4%	39	4.37%	8.37%	8
Alaska	None	47	1.79%	1.79%	47
Arizona ¹	6.6%	9	2.52%	9.12%	2
Arkansas	6%	16	2.65%	8.65%	6
California ²	7.25%	1	0.88%	8.13%	12
Colorado	2.9%	46	4.52%	7.42%	15
Connecticut ³	6.35%	11	None	6.35%	31
Delaware	None	47	None	None	48
District of Columbia	6%	16	None	6%	37
Florida	6%	16	0.62%	6.62%	29
Georgia	4%	39	2.87%	6.87%	24
Hawaii ⁴	4%	39	0.35%	4.35%	46
Idaho	6%	16	0.02%	6.02%	36
Illinois ⁵	6.25%	13	1.97%	8.22%	10
Indiana	7%	2	None	7%	20
Iowa	6%	16	0.82%	6.82%	25
Kansas ⁶	6.3%	12	1.96%	8.26%	9
Kentucky	6%	16	None	6%	37
Louisiana	4%	39	4.86%	8.86%	3
Maine	5%	32	None	5%	44
Maryland	6%	16	None	6%	37
Massachusetts	6.25%	13	None	6.25%	33
Michigan	6%	16	None	6%	37
Minnesota	6.875%	7	0.30%	7.175%	17
Mississippi	7%	2	0.004%	7.004%	19
Missouri ⁷	4.225%	38	3.53%	7.75%	14
Montana ⁸	None	47	None	None	48
Nebraska	5.5%	29	1.27%	6.77%	27
Nevada	6.85%	8	1.08%	7.93%	13
New Hampshire	None	47	None	None	48
New Jersey ⁹	7%	2	-0.03%	6.97%	22
New Mexico ¹⁰	5.125%	31	2.12%	7.24%	16
New York	4%	39	4.48%	8.48%	7
North Carolina	4.75%	36	2.12%	6.87%	23
North Dakota	5%	32	1.42%	6.42%	30
Ohio	5.5%	29	1.30%	6.8%	26
Oklahoma	4.5%	37	4.18%	8.68	5
Oregon	None	47	None	None	48
Pennsylvania	6%	16	0.34%	6.34%	32
Rhode Island	7%	2	None	7%	20
South Carolina	6%	16	1.12%	7.12%	18
South Dakota	4%	39	1.83%	5.83%	41
Tennessee ¹¹	7%	2	2.43%	9.43%	1
Texas	6.25%	13	1.89%	8.14%	11
Utah ²	5.95%	28	0.73%	6.68%	28
Vermont	6%	16	0.14%	6.14%	34
Virginia ^{2, 12}	5%	32	None	5%	44
Washington	6.5%	10	2.33%	8.83%	4

State	State		Avg. Local Rate	Combined State- Local Rate	
	State Tax Rate	Rank		Rate	Rank
West Virginia ¹³	6%	16	0.04%	6.04%	35
Wisconsin	5%	32	0.43%	5.43%	42
Wyoming	4%	39	1.18%	5.18%	43

¹ Rate is 5.6% after May 31, 2013.

² State rate includes mandatory, statewide, local add-on sales taxes: California (1%), Utah (1.25%), and Virginia (1%).

³ Exceptions to the 6.35% rate: (1) 7% on specified luxury goods; (2) 4.5% on sales of motor vehicles to nonresident U.S. military members on full-time active duty in Connecticut; (3) 1% on computer and data processing services; (4) 15% on short-term stays in hotels and lodging houses (30 days or less); and (5) 9.35% on short-term car rentals (30 days or less).

⁴ Rate is 0.5% for wholesalers and manufacturers.

⁵ Rate is 1% for groceries, drugs, medical appliances, and modifications to make a motor vehicle usable by person with disabilities.

⁶ Rate is 5.7% effective July 1, 2013.

⁷ Rate is 1.225% for groceries.

⁸ Due to data limitations, table does not include sales taxes in local resort areas in Montana.

⁹ Some counties in New Jersey are not subject to statewide sales tax rates and collect a local rate of 3.5%. Their average local score is represented as a negative.

¹⁰ Use tax rate on services is 5%.

¹¹ Additional tax of 2.75% imposed on any single item sold in excess of \$1,600 but not more than \$3,200; Rate is 5.25% for food.

¹² Rate is 2.5% for groceries.

¹³ Reduced rates for groceries, motor vehicles, gasoline, special fuels, and long-term vehicle lease payments.

Source: Tax Foundation, [State and Local Taxes at Midyear 2012](#) and CCH State Tax Guide (accessed July 30, 2012)

TAX BASE

Sales taxes across states also vary widely in the number and types of goods and services subject to the tax. Some states tax a broad array of goods and services, with few exemptions, while others tax relatively few. Attachment 1 shows how sales tax bases compare across states by indicating whether selected goods and services are taxable in the state.

Columns four through six show how states tax various consumer goods, namely grocery food, clothing, nonprescription medicines, and digital products. As the table shows, 14 states tax grocery food purchases, seven of them at a reduced rate. All but seven states, including Connecticut, tax clothing purchases. Massachusetts, New York, and Rhode Island, on the other hand, exempt clothing purchases that fall below a particular per-item price threshold. All but nine states tax nonprescription drugs and medicines. About half of the states (24) tax digital products, which include downloaded music, videos, and books. Of these, Connecticut is the only one that taxes digital downloads at a reduced rate (1%).

Column seven shows how states tax manufacturing machinery, as an example of a business purchase. Fourteen states tax these inputs, but of these, two apply a reduced rate (Alabama and Mississippi) and three exempt purchases made for new and expanding manufacturing facilities

(Arkansas, Kentucky, and North Dakota). Connecticut is among the other 32 states that fully exempt manufacturing machinery purchases from sales taxes.

States also vary considerably in how they tax service transactions. Column 8 indicates whether states generally tax personal and professional services. Most of them (38), including Connecticut, tax only specified services. States like Hawaii, New Mexico, and South Dakota are generally regarded as having broad-based taxes because they tax many personal and professional services. Other states, like Indiana, Massachusetts, Nevada, New Jersey, and Rhode Island, have relatively narrow sales tax bases because they tax few or no service transactions.

The last two columns show how states tax two specific services, repair and janitorial services. While certain exemptions may apply on a state-by-state basis, 22 states generally tax repair services and 18 tax janitorial services. Connecticut taxes both.

Connecticut's sales tax base is broader than that of surrounding states. But, by one recent estimate, it is narrower than most states' sales taxes when taking into account the state's personal income. A March 2012 *State Tax Notes* report on state sales taxes measures each state's sales tax breadth, or the extent to which its sales tax applies to economic activity in the state (Mikesell, *supra*). A high breadth measure indicates that a greater share of the state economy is included in the sales tax base; a low measure indicates a smaller share. Based on 2010 data, Mikesell estimates that Connecticut's sales tax breadth is 26.19%, compared to the national median of 34.5%. In other words, 26.19% of Connecticut personal income is spent on goods and services subject to the state's sales tax. Mikesell estimates that more than half of personal income is captured in the sales tax base in Hawaii (99.21%), North Dakota (50.1%), New Mexico (52.2%), South Dakota (58.7%), and Wyoming (73.2%). Conversely, less than one-quarter of personal income is captured in Massachusetts (23.9%) and Vermont (23.7%).

COMMON STRUCTURAL FEATURES OF STATE SALES TAXES

While state sales taxes differ widely, both in their rates and base, they share several common features.

- They generally apply to all retail purchases of tangible personal property, except for those goods that are expressly exempted.

- States rely on vendors to correctly exempt certain otherwise taxable transactions because of (1) the nature of the product (e.g., food for at-home consumption), (2) how the product will be used (e.g., sales for resale), or (3) the nature of the purchaser (e.g., purchases made by the federal government).
- States tax only specified services, and some tax almost no service purchases.
- All states that impose a sales tax also impose a use tax on taxable goods and services purchased outside the state for use in the state (Mikesell, *supra*).

Attachment 1: Taxability of Selected Goods and Services

T= Taxable, E= Exempt, RR = Reduced rate, N&E = Exemption for new and expanding facilities only, SS = Specified services are taxable

State	State Sales Tax Rate	Grocery Food	Clothing	Nonprescription Medicines	Digital Products (i.e., downloaded music, videos, books)	Manufacturing Machinery	Personal and Professional Services	Repair Services (labor only)	Janitorial Services
Alabama	4%	T	T	T	T	RR	E	E	E
Arizona	6.6%	E	T	T	T	E	SS	E (Limited T)	E
Arkansas	6%	RR	T	T	E	N&E	SS	T	T
California	7.25%	E	T	T	E	T	E	E	E
Colorado	2.9%	E	T	T	T	E	SS	E	E
Connecticut	6.35%	E	T	T	RR	E	SS	T	T
District of Columbia	6%	E	T	E	T	T	SS	T	T
Florida	6%	E	T	T	E	T	SS	E	T (Some E)
Georgia	4%	E	T	T	E	E	SS	E	E
Hawaii	4%	T	T	T	T	T	T	T	T
Idaho	6%	T	T	T	T	E	SS	E	E
Illinois	6.25%	RR	T	RR	E	E	E	E	E
Indiana	7%	E	T	T	T	E	E	E	E
Iowa	6%	E	T	T	E	E	SS	T	T
Kansas	6.3%	T	T	T	E	E	SS	T	E
Kentucky	6%	E	T	T	T	N&E	SS	E	E
Louisiana	4%	E	T	T	T	E	SS	T	T
Maine	5%	E	T	T	T	E	SS	E	E
Maryland	6%	E	T	E	E	E	SS	E	T (Some E)
Massachusetts	6.25%	E	E (\$175 or less)	T	E	E	SS	E	E
Michigan	6%	E	T	T	E	E	SS	E	E
Minnesota	6.875%	E	E	E	E	T	SS	E	T
Mississippi	7%	T	T	T	T	RR	SS	T	E

State	State Sales Tax Rate	Grocery Food	Clothing	Nonprescription Medicines	Digital Products (i.e., downloaded music, videos, books)	Manufacturing Machinery	Personal and Professional Services	Repair Services (labor only)	Janitorial Services
Missouri	4.225%	RR	T	T	E	E	SS	E	E
Nebraska	5.5%	E	T	T	T	E	SS	T (Some E)	T
Nevada	6.85%	E	T	T	E	T	SS	E	E
New Jersey	7%	E	E	E	T	E	SS	T	T
New Mexico	5.125%	E	T	T	T	T	T	T	T
New York	4%	E	E (\$110 or less)	E	E	E	SS	T	T
North Carolina	4.75%	E ¹	T	T	T	T	SS	E	E
North Dakota	5%	E	T	T	E	N&E	SS	E	E
Ohio	5.5%	E	T	T	E	E	SS	T (Some E)	T
Oklahoma	4.5%	T	T	T	E	E	SS	E	E
Pennsylvania	6%	E	E	E	E	E	SS	T (Some E)	T
Rhode Island	7%	E	E (\$250 or less) ²	T	E	E	SS	E	E
South Carolina	6%	E	T	T	E	E	SS	E	E
South Dakota	4%	T	T	T	T	T	T	T	T
Tennessee	7%	RR	T	T	T	E	SS	T	E
Texas	6.25%	E	T	E	T	E	SS	T (Some E)	T
Utah	5.95%	RR ¹	T	T	T	E	SS	T	E
Vermont	6%	E	E	E	T	E	SS	E	E
Virginia	5%	RR ¹	T	E	E	E	SS	E	E
Washington	6.5%	E	T	T	T	E	SS	T	E
West Virginia	6%	RR	T	T	E	E	T	T	T
Wisconsin	5%	E	T	T	T	E	SS	T	E
Wyoming	4%	E	T	T	T	E	SS	T	E

¹ Subject to local taxes

² \$250 per item exemption is effective October 1, 2012.

Source: Mikesell, John. "The Disappearing Retail Sales Tax," *State Tax Notes*, March 5, 2012 and CCH *Smart Charts*

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