

# Fiscal Fact

## Trend #4: Sales Tax Increases

### Top 10 State Tax Trends in Recession and Recovery, 2008 to 2012

*By*

*Joseph Henchman*

State sales taxes went up in the past few years, continuing a long-term trend. First adopted in the 1930s during the Great Depression as property tax collections plummeted, sales taxes have seen their base erode over time. Except in a few states, sales taxes generally apply to goods and not services, and often exclude even a significant number of goods (groceries, clothing, medicine, gasoline, sales tax holidays, etc.). So while the tax is important to states because they raise about a third of their revenue from it, Professor John Mikesell has found that sales tax base breadth has declined from 55 percent of personal income in 1970 to just 35 percent today.<sup>1</sup>

States have responded by raising sales tax rates. For example, in recent years, thirteen states have made changes to sales tax rates: all raising them. (See Table.)

**Table: Sales Tax Changes, 2007-2011**

<b>Arizona</b>	5.6% to 6.6% (temporary, expires May 31, 2013)
<b>California</b>	7.25% to 8.25% temporarily for two years 2009-11, then back to 7.25%
<b>Connecticut</b>	6% to 6.35%
<b>Indiana</b>	6% to 7%
<b>Iowa</b>	5% to 6%
<b>Kansas</b>	5.3% to 6.3%
<b>Maryland</b>	5% to 6%
<b>Massachusetts</b>	5% to 6.25%
<b>Minnesota</b>	6.5% to 6.875%
<b>Nevada</b>	6.5% to 6.85% (temporary, expires June 30, 2013)
<b>New Mexico</b>	5% to 5.125%
<b>North Carolina</b>	4.25% to 4.5% to 5.75% to 4.75%
<b>Utah</b>	4.75% to 5.95%
<b>District of Columbia</b>	5.75% to 6%

This trend is likely to continue. While sales taxes can be reformed by broadening bases and lowering rates, this has proven politically difficult. Many of the sales tax exemptions and exclusions are popular precisely because they are so widely-used and make up a large share of spending. One notable botched sales tax reform occurred in **Maryland** in 2007, where officials proposed expanding its sales tax to a

<sup>1</sup> See John Mikesell, *The Disappearing Retail Sales Tax*, 63 STATE TAX NOTES 777, 783-84 (Mar. 5, 2012).

number of services, but deliberately excluded some of the more politically powerful ones (legal services, accounting services, medical services, housing sales etc.). Representatives of other service industries rushed to Annapolis to make the case that their service was just as vital as these excluded ones, and in the end, the sales tax expansion became just a new tax on computer services, which in turn was repealed after industry pressure.<sup>2</sup> A **Georgia** proposal in 2011 died after similar controversy.

The key weakness in these failures has been exempting certain “untouchable” goods and services, which strengthens the resolve of others to bring their good or service under the exemption umbrella. A proposal to tax all final retail sales, with no exceptions whatsoever, in conjunction with a deep tax rate cut, may be more politically sellable than the half-measure approaches that have not worked.

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National Press Building  
529 14th Street, N.W., Suite 420  
Washington, DC 20045

202.464.6200  
www.TaxFoundation.org

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<sup>2</sup> See William Ahern, *Maryland Botching Sales Tax Reform*, TAX FOUNDATION TAX POLICY BLOG (Nov. 8, 2007), <http://taxfoundation.org/blog/show/22740.html>.