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SALES TAX

States where sales taxes hit hardest

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The average combined state and local sales tax rate in Oklahoma is the fifth highest in the nation. Only Tennessee, Arizona, Louisiana and Washington have higher combined rates.

The average combined rate in the state is 8.67 percent. Tennessee had the highest combined rate, 9.44 percent.

In the city of Tulsa within Tulsa County, the current combined sales tax rate is 8.517 percent.

“While graduated income tax rates and brackets are complex and confusing to many taxpayers, the sales tax is easier to understand: People can reach into their pocket and see the rate printed on a receipt,” said Tax Foundation economist Scott Drenkard. “Less known, however, are the local sales taxes collected in 37 states.

“These rates can be substantial, so a state with a moderate statewide sales tax rate could actually have a very high combined state-local rate compared to other states.”

Oklahoma's 4.5 percent state sales tax is lower than that of any of the surrounding states. Texas, which has no state income tax, has a 6.25 percent state sales tax.

But the relatively high local sales tax rates in Oklahoma — averaging 4.17 percent — push the state into the top combined levels. Only four states — Louisiana, Colorado, New York and Alabama — have higher average local sales tax rates than Oklahoma.

Five states do not have a statewide sales tax: Alaska, Delaware, Montana, New Hampshire and Oregon. Of these, Alaska and Montana allow localities to charge local sales taxes.

California, which raised its sales and income taxes through the initiative process last November, has the highest state-level rate at 7.5 percent.

“Sales taxes are just one part of an overall tax structure and should be considered in context,” notes Drenkard. “For example, Washington state has high sales taxes but no income tax; Oregon has no sales tax but high income taxes. While many factors influence business location and investment decisions, sales taxes are something within policymakers' control that can have immediate impacts.”

A 2009 report from the Center for Budget and Policy Priorities shows that Oklahoma is one of the few states that applies its sales tax to groceries.

Thirty-one states and the District of Columbia exempt most food purchases for home consumption from the state sales tax. Seven states, including Arkansas, tax groceries at a lower rate than other retail sales.

Five states — Hawaii, Idaho, Kansas, Oklahoma and South Dakota — tax groceries fully but offer credits or rebates offsetting those costs.

In Oklahoma, people who live in the state the entire year and whose gross household income does not exceed \$20,000 for individuals or \$50,000 for people who claim a dependent, are over age 65 or have a substantial handicap to employment are eligible for a \$40 refundable income tax credit. While state statute doesn't specify that the credit is linked to grocery sales taxes, that was the impetus of the legislation when it was put into law.

Two states — Alabama and Mississippi — fully tax food purchases without rebates, according to the 2009 report.

Most states that exempt groceries from state sales taxes also exempt them from local sales taxes.

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