

Can Tenn. Afford to Have the Nation's Highest Sales Tax?

Average Sales Tax Rates ¹

1	Tennessee	9.40%
2	Louisiana	8.70%
3	Washington	8.45%
4	New York	8.25%
5	Oklahoma	8.15%
6	Alabama	8.00%
7	Arkansas	8.00%
8	California	7.95%
9	Texas	7.95%
10	Arizona	7.80%
11	Illinois	7.60%
12	Nevada	7.50%
13	Kansas	7.00%
14	Mississippi	7.00%
15	Rhode Island	7.00%
16	Georgia	6.95%
17	Missouri	6.95%
18	New Jersey	6.95%
19	North Carolina	6.80%
20	Florida	6.70%
21	Ohio	6.70%
22	Minnesota	6.65%
23	Iowa	6.60%
24	New Mexico	6.60%
25	Utah	6.45%
26	Nebraska	6.35%
27	Pennsylvania	6.25%
28	Colorado	6.20%
29	Idaho	6.05%
30	Vermont	6.05%
31	Connecticut	6.00%
32	Indiana	6.00%
33	Kentucky	6.00%
34	Michigan	6.00%
35	West Virginia	6.00%
36	South Carolina	5.80%
37	North Dakota	5.40%
38	Wisconsin	5.40%
39	Wyoming	5.35%
40	South Dakota	5.25%
41	Maine	5.00%
42	Maryland	5.00%
43	Massachusetts	5.00%
44	Virginia	5.00%
45	Hawaii	4.40%
46	Alaska ²	1.25%
47	Oregon ³	0.00%
48	Delaware ³	0.00%
49	Montana ³	0.00%
50	New Hampshire ³	0.00%

The sad truth is... we already do!

Tennessee's state sales tax was enacted in 1946 at a rate of 2%. Since then, our economy has changed dramatically, such that a sales tax is no longer an effective source of state revenue.

What's happened since then? Cross border shopping, internet, and mail order have eroded the tax base by providing a way for people to avoid Tennessee's high sales tax.

Tennessee, like the rest of the country, has become a more service-based economy (services are not subject to a sales tax). As a result, Tennessee's tax base has continued to erode.

Our legislators' response? Instead of reducing our dependence on the outdated sales tax, legislators in July 2002 raised the state tax rate from 6% to 7% on all items except some grocery food. On top of this 7% state rate, local governments can add another 2.75%, for a maximum sales tax rate of 9.75%.

Now we have the highest sales tax in the nation and our schools are STILL 49th nationally in funding per capita!

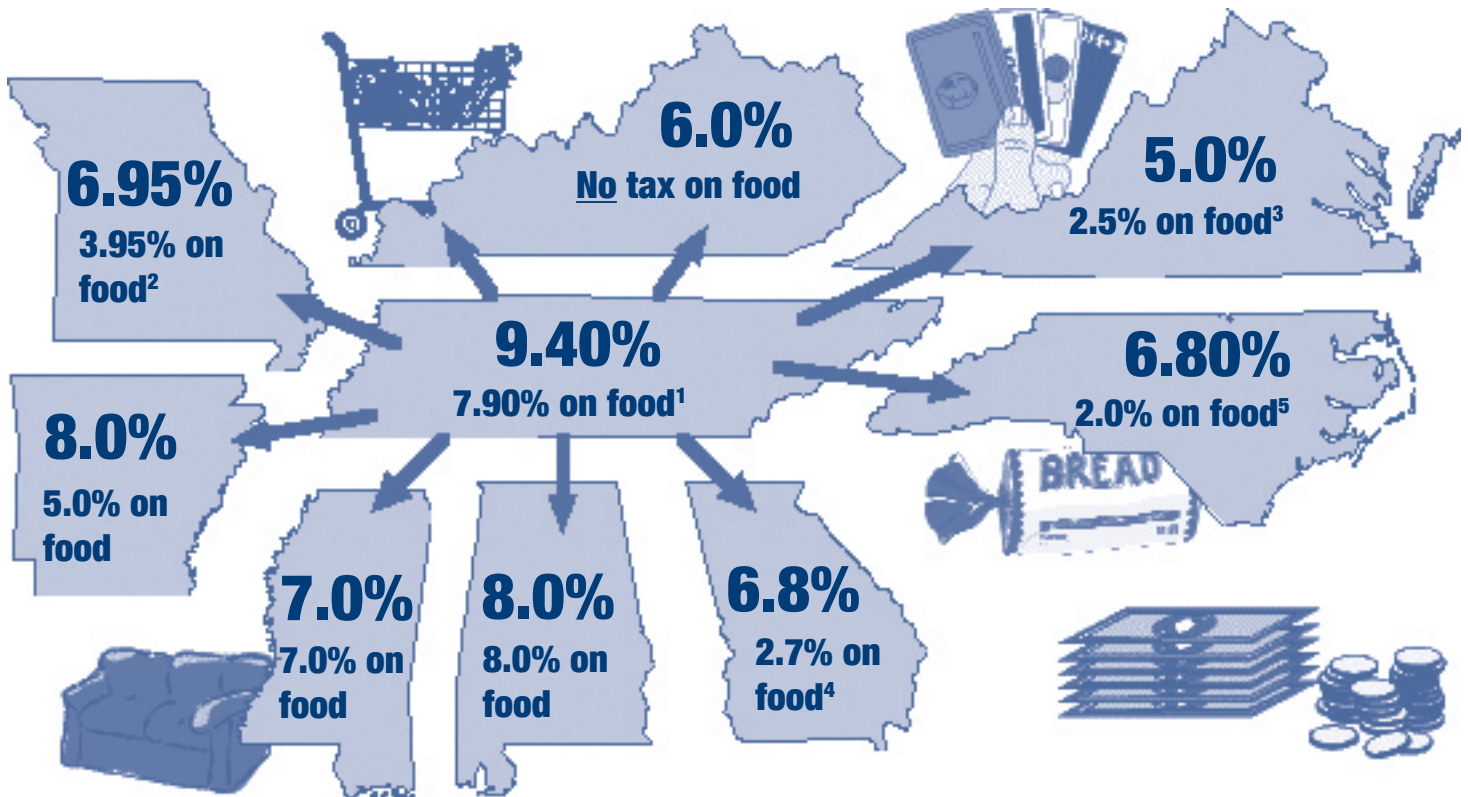
Why?

- ★ Because Tennessee puts all its eggs in one basket. The state of Tennessee relies on sales & selective taxes for roughly 70% of its revenue.⁴ One revenue source isn't enough!
- ★ Because each increase in the sales tax rate results in more shoppers leaving the state by car, mail order, and internet. This means lost jobs for Tennesseans, lost revenue for the state, and less services for the people that live here.
- ★ Because 42 other states in the nation balance their lower sales tax with a modest income tax. This gives these states a diverse revenue base to draw upon, providing stable and adequate funding for schools and other public services. It's time for Tennessee to do the

Notes: [1] Rankings use a weighted average (population) of sales tax rates from all municipal and county taxing jurisdictions within each state. From the Sales Tax Clearinghouse located on-line at <http://www.taxch.com/STrates.stm>, 1/9/07. [2] No state sales tax (local only). [3] No state or local sales tax. [4] Tennessee Dept. of Revenue.

Every day shoppers LEAVE Tennessee by car, by phone, and by internet to avoid the nation's highest sales tax

With 50% of the state's population living in border counties, it's easy for people to avoid Tennessee's high sales tax. When they do, Tennessee loses revenue and loses jobs!



Notes: [1] In 2002, Tennessee increased the state sales tax from 6% to 7%, but did not apply the increase to grocery food items. Counties and cities can add up to 2.75% in local sales tax to the state rate. [2] On top of the lower state tax on food in MO (3% less than non-food items), St. Louis (Co. and city) & St. Charles Co. further reduce the tax on food by 0.1%. [3] In July 2005, Virginia Legislators voted to cut the state and local tax on food to a combined rate of 2.5% (1.5% state plus 1% local). Virginia also exempts nonprescription drugs. [4] GA exempts groceries from the 4% state sales tax, leaving only county sales taxes. As of October 2005, Dekalb, Rockdale, Taliaferro, and Webster Counties reduce the food tax by an additional 1%. [5] NC has no state sales tax on groceries, leaving only the local sales tax. Though county sales tax rates vary on non-food items, all counties tax groceries at 2%.

We need a **BALANCED** tax system to fund public services

With the severe under funding of our education system and other public services, it's clear the state needs additional revenue. However, any further increases in the state sales tax would be self-defeating and damaging to the state's economy.

The solution to Tennessee's budget crisis is real and meaningful tax reform, including the elimination of the tax on food, reduction of the sales tax on non-food items, and enactment of a broad-based personal income tax. Such a plan will lower taxes for most Tennesseans, allow Tennessee employers to compete with other states, and provide a stable and reliable funding source to invest in Tennessee, its communities, and its people.

For more information, visit www.yourtax.org or call Tennesseans for Fair Taxation at 888-671-5188 (toll-free), 865-687-9600, 615-751-5011, or 731-265-2700.

