Highlights of Sales Tax Revenue Trends of County Governments in Arkansas, 1999-2009

Wayne Miller
Professor - Community and Economic Development

Vuko Karov
Research Assistant - Community and Economic Development

Introduction

The sales tax is an increasingly popular method of raising revenue for Arkansas state and local governments. The use of the sales tax by county governments to generate additional revenue has increased the share of revenue coming from the sales tax. In 2009, 73 of the 75 Arkansas counties had a sales tax to generate revenue for their county governments. Local governments may institute sales taxes if approved by a simple majority of the voters at a special or general election.

The increasing use and dependence on the sales tax to generate revenue raises concerns about the stability of future tax revenue, potential for revenue growth, over reliance on one tax (tax structure) and the increasing tax burden on the poor (tax incidence). Counties have varying sales tax rates, ranging from 0% to 3%, with the average county sales tax being 1.45% in 2010.

Many county governments depend heavily on this source of revenue to build and maintain roads, provide public safety and for their general operations. Reliance on the sales tax varies across counties. In 2009, sales tax accounted for as little as 0% of total revenue in Monroe and Saline counties to as much as 47% of total revenue in White County.

This publication presents some highlights of the study of sales tax revenue trends of Arkansas county governments from 1999 to 2009 and differences across counties based on two classification schemes:

1) Metro versus Non-Metro
2) Regions: Urban and Rural (including three rural classifications: Coastal Plains, Delta and Highlands)

We also analyze the potential to raise additional revenue from the sales tax by estimating the capacity and effort across the 75 counties.

Statewide Averages

• Sales tax revenue received by county governments increased by 55% from $107 million to $166 million from 1999 to 2009.2

• However, 19 counties experienced a decline in their sales tax revenue over the 10-year period (Figure 1).

Figure 1. Change in Total County Sales Tax Revenue (1999-2009)

Sources: Arkansas Legislative Audit, U.S. Department of Labor
• County sales tax revenue collected per person increased 45% from $40 to $58 from 1999 to 2009. Fourteen counties, however, saw a decline in their per capita sales tax revenue.

• County sales tax revenue per $1,000 of personal income increased over the 10-year period by 22% from $1.87 in 1999 to $2.28 in 2009.

• Sales tax revenue as a share of total county revenue also increased over the 10-year period from 18% in 1999 to 22% in 2009. Overall, the sales tax has generated more revenue than the property tax for county governments since 2001.

Metro and Non-Metro Differences

• The rural regions of the state (non-metro) generated a larger share of their revenue from the sales tax in 2009 than most urban (metro) counties, 25% versus 18%.

• Both urban and rural regions saw similar increases in sales tax revenue from 1999 to 2009, 54% versus 56%.

• However, rural counties collect considerably more in sales tax revenue per person, $79 for rural counties versus $38 received for urban counties. Rural counties also saw a greater increase in sales tax revenue per person compared to metro counties, 55% versus 30%.

• Rural counties collected more sales tax revenue per $1,000 of personal income, $3.51 compared to only $1.40 in urban counties. From 1999 to 2009, the amount of sales tax revenue per $1,000 of personal income also increased more in rural than in urban counties (33% versus 13%).

Regional Differences

• Of the rural regions, the Coastal Plains generated the largest share of county government revenue from the sales tax in 2009, 31% versus 22% for the Delta region.

• The Coastal Plains collected the most sales tax revenue per person ($112) and the most revenue per $1,000 of personal income ($4.57).

• However, the Highlands region experienced the greatest increase in per person revenue, 65% versus 38% in the Coastal Plains and 29% in the Delta.

Figure 2. Sales Tax Capacity and Effort (2007)

The Highlands saw the greatest increase in sales tax revenue per $1,000 of personal income, 46% compared to only 12% in the Delta and 23% in the Coastal Plains.

Capacity and Effort

In an effort to estimate the ability local governments have to raise revenue from the sales tax, sales tax capacity and effort have been estimated for the year 2007.

• Sales tax capacity refers to the county's sales tax base or the theoretical amount of sales tax revenue that could be generated.

• Tax effort refers to the tax rates; the higher the rate, the greater the effort.

Once estimated, these two values can be used together to compare the sales tax revenue collected with the amount that could be raised from the sales tax. Of particular interest are the counties that have a low capacity and high effort. These counties, represented by pink in Figure 2, not only have a low capacity but, because of their high sales tax rates, do not have the ability to generate much additional revenue from this source.

Sources: Arkansas Legislative Audit, U.S. Department of Labor

1The full report is available online at http://www.uaex.edu.

2All dollar values are reported in 1999 constant (real) dollars unless otherwise specified. The South Urban (SU) consumer price index (CPI) was used to adjust revenues for inflation.