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Highlights of Sales Tax Revenue Trends of County Governments in Arkansas, 1999-2014[1]

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Sales and use tax is an increasingly popular method of raising revenue for Arkansas state and local governments.[2] The use of sales tax by county governments to generate additional revenue has increased the share of total county revenue from sales tax. In 2014, 73 of 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 during a special or general election.

The increasing use and dependence on 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 an average county sales tax rate of 1.49% in 2014.

Many county governments depend heavily on this source of revenue to build and maintain roads, to provide public safety and for their general operations. Reliance on sales tax revenue varies across counties. In 2014, sales tax accounted for as little as 0% of total revenue in Monroe and Saline counties to as much as 48% in Drew and Crittenden counties.

This publication presents some highlights of the study of sales tax revenue trends of Arkansas county governments from 1999 to 2014, as well as differences across counties and regions. We also analyzed the potential to raise additional revenue from sales tax by estimating the capacity and effort of each county in Arkansas.

Sales Tax Revenue

- Sales tax revenue grew 64% statewide between 1999 and 2014, from $155.7 million to $225.7 million.[3] This growth, however, masked significant variability among counties (Figure 1).
- Sales tax revenue received by county governments in Arkansas decreased $20.9 million (9%) during the Great Recession from 2008 to 2011. Since 2011, sales tax revenue has rebounded, growing $33.7 million (15%).
- County sales tax revenue collected per person increased 47% between 1999 and 2014, from $59 to $86. However, there has only been a very slight increase since 2008.
- County sales tax revenue collected per $1,000 of personal income also increased, from $1.89 in 1999 to $2.29 in 2014 (21%).
- The share of total revenue counties generated through sales tax increased during the 15-year period, from 19% in 1999 to 24% in 2014. Sales tax revenue generated more revenue than property tax from 2001 to 2009 and from 2013 to 2014.
- Sales tax revenue accounted for the second-largest share of total revenue in 2014 at 23%, slightly less than intergovernmental revenue (24%).

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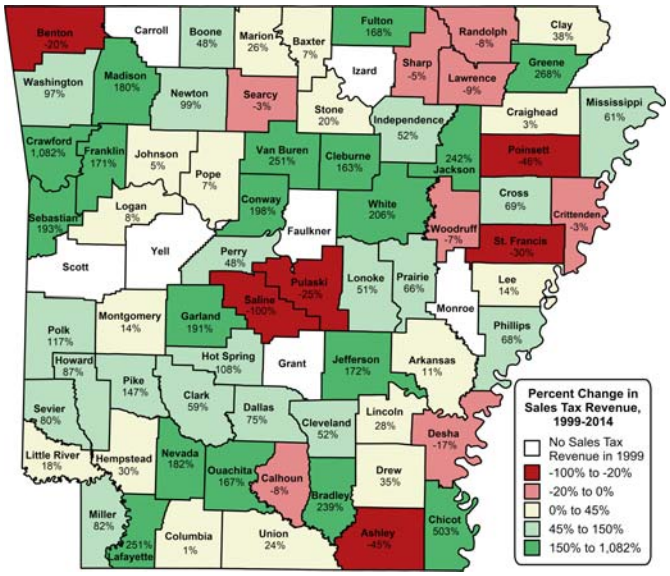
[1] The full report, MP515, *Sales Tax Trends of County Governments in Arkansas, 1999-2014*, is available online at http://www.uaex.edu/business-communities/government-policy/local-government-finance.aspx

[2] This publication refers to Arkansas' sales and use tax as "sales tax."

[3] All dollar values are reported in 2014 constant (real) dollars unless otherwise specified. The South Urban (SU) consumer price index (CPI) was used to adjust revenues for inflation.

Figure 1. Percent Change in County Government Sales Tax Revenue, 1999-2014



Sources: Legislative Audit Reports, Arkansas Legislative Audit; South Urban CPI, Bureau of Labor Statistics

Urban and Rural Comparison

- Rural (non-metro) regions of the state generated a larger share of their total revenue (26%) from sales tax in 2014 than urban (metro) counties (20%).
- Sales tax revenue grew 68% in the metro region between 1999 and 2014, more than in the non-metro region where growth was only 62%.
- On a per capita basis, non-metro counties collected sales tax revenue of $122 in 2014, more than double that of metro counties, with sales tax revenue of $60 per person. Non-metro counties also saw more than double the per capita growth as metro counties (64% versus 36%).
- Sales tax revenue per $1,000 of personal income in non-metro counties grew 40% between 1999 and 2014, from $2.77 to $3.88. During the same period, sales tax revenue per $1,000 of personal income in metro counties grew only 13%, from $1.28 to $1.45.

Regional Comparison

- Of the rural regions, sales tax revenue accounted for the largest share of total revenue in the Coastal Plains in 2014 at 31%, compared to 25% in the Delta and Highlands.
- The Coastal Plains also collected the most sales tax revenue per person ($170) and per $1,000 of personal income ($4.88) in 2014.
- However, revenue per capita and per $1,000 of personal income grew the most in the Highlands at 78% and 57%, respectively.

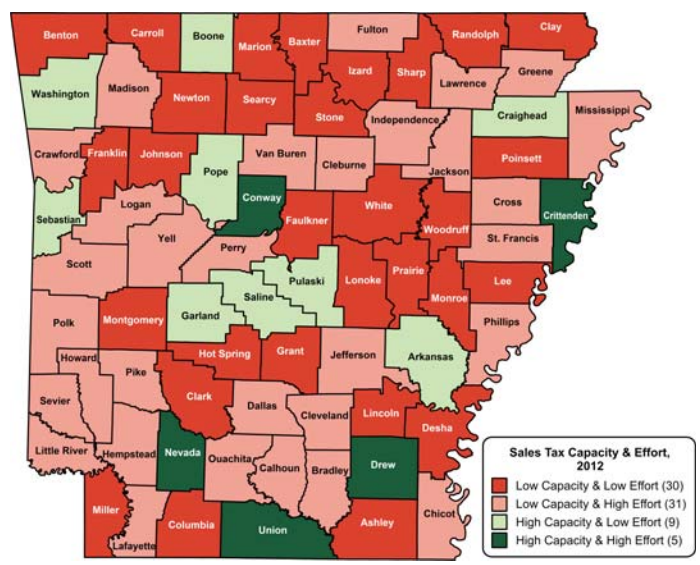
Capacity and Effort

To estimate the ability of local governments to raise revenue from sales tax, sales tax capacity and effort have been estimated for the year 2012.[4]

- Sales tax capacity refers to the county's sales tax base, or the theoretical amount of sales tax revenue that could be generated using a proxy measure of retail sales.
- Sales tax effort refers to the sales tax rates; the higher the rate, the higher the effort.

There were 31 counties in 2012 categorized as low capacity and high effort. These counties have a low potential for growing sales tax revenue, because the tax base is small and the rate charged is already relatively high. There were 9 counties in the state that fell within the high capacity and low effort category in 2012. Because these counties have a large tax base and low tax rates, they are best situated to grow total revenue by increasing sales tax rates.

Figure 2. Sales Tax Capacity and Effort, 2012



Sources: Economic Census, U.S. Census Bureau; Sales and Use Tax Rates, Arkansas Department of Finance and Administration

[4] The 2015 version of this report computed sales tax capacity and effort for the year 2012 using Woods & Poole retail sales estimates while this fact sheet relies on the U.S. Census Bureau's 2012 Economic Census. Differences of capacity and effort calculations between the 2015 and 2017 versions of this fact sheet are attributable to the change in data source.

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