

Local Sales Taxes and Business Activity in the United States

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Abstract

The exhaustive existing literature on sales tax competition has had a focus on state data or case-studies of specific areas. This is natural because these data are usually easily obtained, and the concept of a national panel of sales tax rate data below state level has been out of reach thus far. This paper attempts to further the literature by bringing this focus on sales taxes down to county level business data and adds county sales tax rates to the already intensely-covered state sales tax rate. Further, this paper covers all counties within the United States in order to provide better insight into the use and growth of the sales tax at sub-national levels. Utilizing data from 2002 through 2011, it is found that sales taxes have a significant negative impact on overall county annual payroll and employment. Further, it is confirmed that sales taxes tend to indicate a “friendliness” to the retail industry and a neglect of the manufacturing industry, whereby the institution of, or an increase in, a state or county sales tax rate can significantly reduce the manufacturing business activity within that county.

Keywords: county sales tax; business activity; number of establishments, payroll, employment, United States

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