Highlights of Sales Tax Revenue Trends of County Governments in Arkansas, 1999-2012[1]

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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 total county revenue coming from the sales tax. In 2012, 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 percent to 3.25 percent, with the average county sales tax being 1.46 percent in 2012.

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 the sales tax varies across counties. In 2012, sales tax accounted for as little as 0 percent of total revenue in Monroe and Saline counties to as much as 49 percent of total revenue in Drew and Hempstead counties.

This publication presents some highlights of the study of sales tax revenue trends of Arkansas county governments from 1999 to 2012 and differences across counties based on two classification schemes:

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

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

Sales Tax Revenue

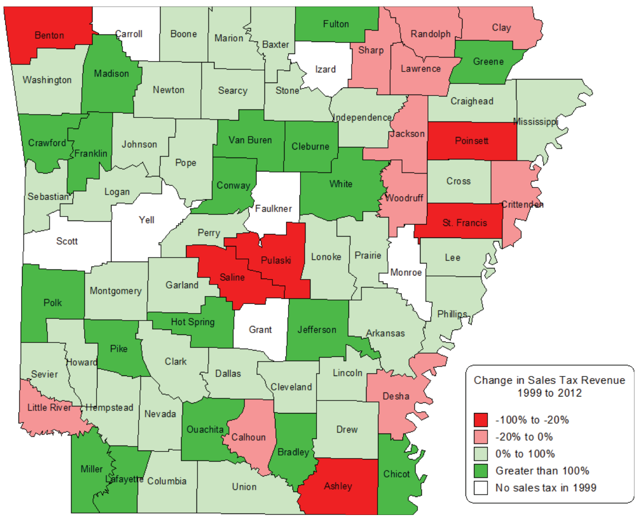
- Sales tax revenue received by county governments dropped by $20 million (9 percent) from 2008 to 2011 due to the economic recession. It increased again in 2012 but did not reach its 2008 level.
- Despite the downturn in sales tax revenue from 2008 to 2011, sales tax revenue increased overall from 1999 to 2012 by 52 percent, from $151 million to $229 million.[2] However, 16 counties experienced a decline in their sales tax revenue over the 13-year period (Figure 1).
- County sales tax revenue collected per person increased 36 percent from 1999 to 2012, from $57 to $77. Nineteen 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 13-year period by 16 percent, from $1.89 in 1999 to $2.19 in 2012.
- Sales tax revenue as a share of total county revenue also increased over the 13-year period, from

[1]The full report, MP515, *Sales Tax Revenue Trends of County Governments in Arkansas, 1999-2012*, is available online at http://www.uaex.edu/business-communities/government-policy/local-government-finance.aspx.

[2]All dollar values are reported in 2012 constant (real) dollars unless otherwise specified. The South Urban (SU) consumer price index (CPI) was used to adjust revenues for inflation.

19 percent in 1999 to 23 percent in 2012. The sales tax generated more revenue than the property tax for county governments from 2001 to 2009 but was surpassed by the property tax from 2010 to 2012.
- In 2012, sales tax revenue was the second-largest source of total revenue for county governments in Arkansas.

Figure 1 Change in County Government Sales Tax Revenue, 1999-2012



Sources: Arkansas Legislative Audit and U.S. Department of Labor (CPI Index).

Urban and Rural Differences

- The rural regions of the state (non-metro) generated a larger share of their total revenue from the sales tax in 2012 than did urban (metro) counties, 27 percent versus 19 percent. Rural regions also saw a greater increase in sales tax revenue from 1999 to 2012, 58 percent versus 42 percent in urban counties.
- On a per capita basis, rural counties collected over twice the sales tax revenue of urban counties, $113 versus $51. Rural counties also saw a greater increase in sales tax revenue per person from 1999 to 2012, 58 percent versus 17 percent in urban counties.
- Rural counties collected considerably more sales tax revenue per $1,000 of personal income in 2012, $3.60 compared to only $1.32 in urban counties. From 1999 to 2012, the amount of sales tax revenue per $1,000 of personal income also increased more in rural than in urban counties (34 percent versus 1 percent).

Regional Differences

- Of the rural regions, sales tax revenue accounted for the largest share of total revenue in the Coastal Plains in 2012 at 33 percent of total revenue versus 19 percent in the Delta region.
- The Coastal Plains also collected the most sales tax revenue per person ($161) and the most revenue per $1,000 of personal income ($4.59) in 2012.
- However, the Highlands region experienced the greatest increase in per person revenue over the 13-year period at 76 percent. The Delta and Coastal Plains saw increases of 53 percent and 36 percent, respectively.
- The Highlands also saw the greatest increase in sales tax revenue per $1,000 of personal income, 57 percent compared to 18 percent in the Delta and 10 percent in the Coastal Plains.

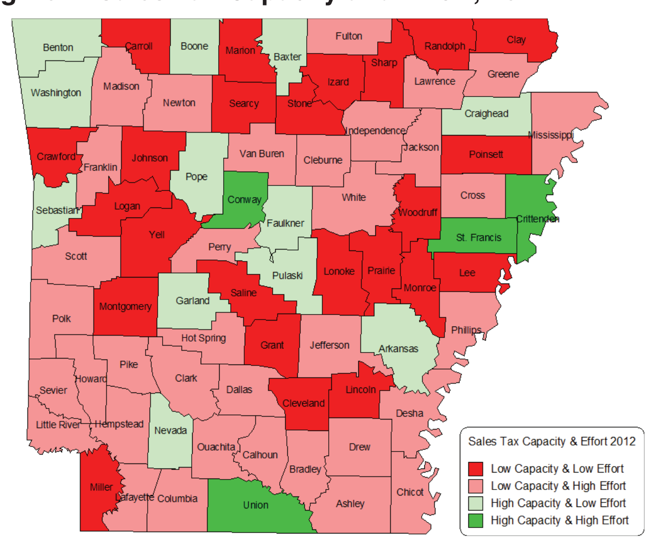
Capacity and Effort

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 2012.

- 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 potentially be raised from the sales tax. Of particular interest are the counties which 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.

Figure 2. Sales Tax Capacity and Effort, 2012



Sources: Arkansas Department of Finance and Administration, U.S. Census Bureau and Woods & Poole Economics 2014 State Profile.

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