

Sales tax has become a quagmire of rules, misconceptions, tax forms, legislation, and legal battles. The basic problem is that the United States has thousands of sales tax jurisdictions (counting states, counties, and cities). Most jurisdictions interpret sales tax law to mean that a resident of the jurisdiction must pay sales tax on each item the resident purchases, regardless of where the item is purchased.

For instance, if you live in Washington State (which has sales tax) and purchase an item in Oregon (which has no sales tax), Washington expects you to report your purchase and pay sales tax. Even more common is the issue of Internet sales. If you run an Internet business, then you might have to collect and report sales tax when someone purchases an item from you.

EXAMPLE 2 Finding a Sales Tax Rate

Jacket	\$135.95
Subtotal:	\$135.95
Sales tax city:	\$ 1.36
Sales tax county:	\$ 4.35
Sales tax state:	\$ 9.25
TOTAL:	\$150.91
- THANKS FOR SHOPPING -	

You purchase a jacket in an airport mall. You are unfamiliar with the sales tax rates in the area. You are given the sales receipt shown at the left. Find the sales tax rates indicated by the receipt.



SOLUTION

For sales tax, the retail price is always the **base**.

$$\begin{array}{l} \text{City sales tax} \rightarrow \frac{1.36}{135.95} \approx 0.01 = 1\% \\ \text{Retail price} \rightarrow 135.95 \end{array}$$

The city has a sales tax rate of about 1%.

$$\begin{array}{l} \text{County sales tax} \rightarrow \frac{4.35}{135.95} \approx 0.032 = 3.2\% \\ \text{Retail price} \rightarrow 135.95 \end{array}$$

The county has a sales tax rate of about 3.2%.

$$\begin{array}{l} \text{State sales tax} \rightarrow \frac{9.25}{135.95} \approx 0.068 = 6.8\% \\ \text{Retail price} \rightarrow 135.95 \end{array}$$

The state has a sales tax rate of about 6.8%.



✓ Checkpoint

Help at Math.andYOU.com

- Suppose that Washington State loses the sales tax on 10,000 major appliances that are purchased in Oregon each year. The sales tax rate in Washington is 6.5%. Estimate the loss in tax revenue from these sales.
- Suppose that each person in the United States avoids paying \$500 in sales tax each year (by buying out of state, buying on the Internet, or buying at informal outlets such as garage sales). Estimate the total sales tax revenue lost each year.