Sales Tax Holidays
Do they pass the “good tax policy” test?
Sales tax holidays are time periods when certain goods are exempted from state (sometimes local) sales taxes.
Objectives of sales tax holidays:
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- Promote economic growth
  (↑ consumption, ↑ employment)
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- Provide meaningful tax savings to consumers
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- Change cross-border shopping behavior
  (↓ in-state consumers leaving, ↑ out-of-state consumers entering)
New Hampshire: 365
Massachusetts: 2
Common holidays:

- clothing
- school supplies
- computers
- hurricane prep supplies
- Energy Star appliances
- firearms
17 states had sales tax holidays in 2014, and one got rid of theirs in 2013 (North Carolina)
Number of States with Sales Tax Holidays
(does not include Washington, D.C.)

Practice began with Michigan & Ohio in 1980.
Modern trend began in **New York** in 1997.
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Peaked at 19 states in 2010
Number of States with Sales Tax Holidays
(\textit{does not include Washington, D.C.})

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Ask public finance scholars what a good tax looks like, they’ll tell you it should be:

**simple, neutral, transparent, & stable.**
Ask public finance scholars what a good tax looks like, they’ll tell you it should be: *simple, neutral, transparent, & stable.*

Tax holidays violate **all four** of these principles.
Are sales tax holidays simple?
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- Can force employees to hire temporary workers (costly!)
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- Costly to administer from state/local perspective; costly for consumers (non-monetary)
“‘Parents tend to do it two weeks in advance,’ said Maria Hernandez, a JC Penny store manager. She says many parents don’t want to take a risk when school is just around the corner...Some store managers recommend shopping before the tax free weekend to avoid missing out on items that could be out of stock.”

-KTRE (Lufkin, TX)
Are sales tax holidays simple?

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- Retailers must comply with separate tax rules (but only for a few short days)
“Corprew [a retailer] said larger corporations and department stores have the luxury of big computer systems to calculate tax-free items, but for small business like her clothing shops, she and her partner spend hours photocopying receipts and organizing sales information just to make sure everything is accurate and in order. ‘We have to split all the details and it’s a tremendous amount of work for us,’ Corprew said.”

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- What’s exempt/what’s not is confusing; rules are confusing
- Difficult for retailers to predict accurately what increased demand will look like (if it happens)
“Zenisek [a retailer owner] spent money advertising the tax-free weekend in area publications and had more employees in-store anticipating an influx of traffic, which she never saw.”

Are sales tax holidays neutral?
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- Causes consumers to shift purchases across time (not increase purchases)
Holidays cause shoppers to *shift purchases* across not time, not increase the volume of purchases.
Holidays cause shoppers to **shift purchases** across not time, **not increase the volume** of purchases.
Are sales tax holidays **neutral**?

- Causes consumers to shift purchases across time (not increase purchases)
- Consumers get modest benefit for doing something they already would have done
“Larie Thompson...decided to get a head start on the sales tax holiday. She took her two daughters to the Bonsack Wal-Mart to scout out school deals, but she **planned to wait until the tax-free weekend to buy them.**”

- Roanoke Times (2009)

“Robyn Linen of Grovetown was shopping at Target...She usually **waits until the holiday** so she can save money, she said.”

- Augusta Chronicle (2009)

“Diane Parnell, who was shopping...at the Target on Midlothian Turnpike last week, said she will do some shopping before the tax holiday begins, **but will wait until the weekend to buy most of the supplies** on her children’s list,”

- Richmond Times-Dispatch (2009)

“‘We’re going to come back again tomorrow’ for a stove, said Mariam Haddad of Sommerville, who **waited until this weekend** to buy a crib for her day-care business and a digital camera for her 14-year-old daughter.”

- Boston Globe (2009)

“At the Garden Gate on Old Metairie Road, for example, manager Sara Draper said some customers will select a fancy fountain or bench **but wait to swipe their credit cards** until they can get the item during the tax-exemption period.”

- New Orleans Citybusiness (2009)
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- Type of product is also arbitrary and can lead to discrimination between types of consumers
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- Tax savings are misleading and exaggerated (retailers have incentive to raise prices)
“’I’m done,’ proclaimed the Larego nurse and mother of three during a recent outing at Target, ‘I shop the sales year round for deals. I’m trying to be more practical. I won’t be fighting crowds for the small savings during the sales tax holiday.”

-Tampa Bay Times (2007)

“Mel Lester, who was shopping for summer shorts for her two children, said she probably wouldn’t shop on the sales tax holiday weekend. ‘You don’t save enough to make it worth fighting the crowds,’ she said.”

-Greenville News (2009)
Are sales tax holidays transparent?

- Goal is to promote “impulse buys” (inducing consumer to buy non-tax-free items).
- Tax savings are misleading and exaggerated (retailers have incentive to raise prices).
- Retailers have incentive to change prices (offer higher savings prior to holiday knowing consumers will likely wait until holiday to buy).
“If you looked at the fine print in Sunday’s newspaper advertisements, you may have noticed some of the best sale prices will end several days before tax-free weekend. ... Belk is...offering some of its best prices from now until Tuesday, including an extra 15 percent off all home purchases. Remember, you will save only seven percent if you wait for tax-free weekend.”

-Tampa Bay Times (2007)
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- Temporary tax changes should be avoided
- States aren’t consistent across years (sometimes cancel them or enact at last minute)
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- Don’t increase consumption & employment or promote growth.
- Not meaningful tax savings.
- Don’t pay for themselves.
- Aren’t simple, neutral, transparent, or stable.
Sales Tax Holidays

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