Back to School, Back to Sales Tax Holidays
For many young Americans, the start of the school year is bittersweet; full of sorrow at the prospect of summer vacation coming to an end, but also excitement over new routines and connecting with friends. For the people responsible for getting them prepared, there may be even more to celebrate: temporary exemptions from paying sales taxes. The idea of giving people a “holiday” from paying sales taxes has been growing in popularity in the United States since the late 1990s. During what is known as a sales tax holiday, a state places a temporary suspension on state, and sometimes local, sales taxes for specified purchases. States usually time such occasions to align with back-to-school shopping periods.

The most common goods included in these holidays are clothing, footwear, school supplies and computers. Some states have expanded or created new holidays for additional goods. Energy Star efficient products have been added in at least six states, and some coastal states created tax holidays for hurricane preparedness items. Sales tax holidays on firearms and hunting supplies have also gained popularity. South Carolina enacted the first such holiday for firearms in 2008. Louisiana and Mississippi soon followed, but both states expanded the sale to include other hunting equipment as well. Most but not all states place caps on goods purchased during sales tax holidays. In states that include them, these caps are usually about $100 for clothing, $20 to $50 for school supplies and $1,000 for computers.

New York instituted the first modern sales tax holiday for clothing in 1997 to compete for business with neighboring New Jersey, which exempts clothing from the state sales tax. Since then, many states have experimented with sales tax holidays. The practice is particularly popular in the Southeast. According to the Federation of Tax Administrators, 17 states have planned at least one sales tax holiday in 2021, the same number as last year. In some states, sales tax holidays are set in statute to occur on an annual basis, while other states pass legislation each year a sales tax holiday is desired. Several states have enacted new sales tax holiday legislation this year. Arkansas expanded its sales tax holiday to purchases of electronic devices. Florida authorized three different sales tax holidays: a back-to-school holiday for certain clothing/school supplies purchases, a disaster preparedness holiday, and a recreation tax holiday for sports, camping, and water activity supplies. Tennessee provided a year-long sales tax holiday for gun safes and gun safety devices.

Sales tax holidays also are viewed as a way to potentially mitigate the regressivity of sales taxes, which disproportionately affect low-income taxpayers. Retail industry representatives are generally advocates of sales tax holidays, arguing that they boost local businesses. Similar to a Black Friday sale, consumers might be inclined to make more purchases since they would be saving on sales taxes. One main reason many people and lawmakers support sales tax holidays, however, is simply that they are a politically popular way provide tax relief and save consumers money.

Tax policy experts from both sides of the political spectrum have cast doubt on many of the arguments put forward by sales tax holiday proponents and lament there is no good tax policy justification for treating certain transactions made at certain times differently than others. They argue that sales tax holidays are not an effective way to help low-income individuals, because such consumers may not have the financial flexibility to shift their purchases to coincide with the holiday. Other low-income individuals, such as the elderly, might have needs other than the tax-free goods offered. Overall, opponents say, sales tax holidays simply shift the timing of consumer purchases and do not affect the amount people spend. Furthermore, the tax relief provided to consumers by the sales tax exemption can be offset by retailers raising prices in anticipation of a shopping surge.

Finally, sales tax holidays can cost states a somewhat significant amount of money. Georgia routinely held a sales tax holiday until 2016, when concerns about the revenue loss led lawmakers to opt out of
renewing it. (The last back-to-school sales tax holiday was estimated to cost the state $42 million and local governments $31 million.) North Carolina similarly curbed the use of sales tax holidays in 2012, anticipating to recoup $13 million in foregone revenue. Massachusetts stopped holding sales tax holidays for a couple years in 2016 and 2017 in the midst of a significant budget deficit, but has since resumed the practice; the Department of Revenue estimated it cost $38 million in 2019.

The debate on the merits of temporary sales tax exemptions will surely continue, but they remain politically popular and, with state budgets in relatively good condition, it seems the holiday season will continue merrily along in the states that celebrate it.