

Sales Tax Holidays Distort Consumer, Business Decisions, Provide Little Relief to Taxpayers

Temporary Political Stunts Distract from Much-Needed Permanent Tax Reform, According to Tax Foundation Study

Washington, DC – As a number of states wrap up back-to-school sales tax holidays, a new Tax Foundation study shows that the temporary, targeted periods of sales tax exemption are nothing more than political gimmicks that do little to help consumers. Instead, the holidays distort consumer choices while favoring certain industries over others, increase tax code complexity, and distract from real, permanent tax relief.

According to *Tax Foundation Special Report No. 171*, “Sales Tax Holidays: Politically Expedient but Poor Tax Policy,” 16 states are offering sales tax holidays in 2009 – down from 17 in 2008 – including 13 that exempt clothing, eight for school supplies, seven targeting computers, and three applied to Energy Star products. The *Special Report* is available online at <http://www.taxfoundation.org/publications/show/25052.html>.

“If a state must offer a ‘holiday’ from its tax system, it’s a sign that the state’s tax system is uncompetitive – something that must be addressed with permanent reform,” said Staff Economist Mark Robyn, who authored the paper with Director of State Projects Joseph Henschman and Adjunct Scholar Micah Cohen. “In order to provide lasting relief to consumers, policymakers should cut the sales tax rate year-round, while broadening the sales tax base to include all goods and services would ensure that government would be able to raise necessary revenue in the least economically distortionary way.”

Among the study’s key findings:

- Sales tax holidays do not promote economic growth or significantly increase consumer purchases; the evidence shows that they simply shift the timing of purchases. Some retailers raise prices during the holiday, effectively absorbing the benefit of the holiday and reducing consumer savings.
- Sales tax holidays create complexities for tax code compliance, efficient labor allocation, and inventory management. Instability in tax law is costly to the economy not only because of complexity, but because it disrupts plans and expectations of consumers and businesses, especially as states cancel sales tax holidays due to the recession and related revenue loss.
- Most sales tax holidays involve politicians picking products and industries to favor with exemptions, arbitrarily discriminating between products and across time, and distorting consumer decisions. For example, Virginia’s hurricane-preparedness sales tax holiday applies to cell phone chargers but not laptop chargers, and duct tape but not masking or electrical tape. South Carolina’s gun sales tax holiday applies to firearms but not associated safety products.
- While sales taxes are somewhat regressive, sales tax holidays are a bad way of providing relief to the poor. Sales tax holidays amount to a 4 percent to 7 percent price reduction for all consumers, but only for a brief period of time.

“Taxes should raise revenue, not micromanage a complex economy by picking winners and losers in the market,” the authors conclude. “Sales tax holidays neither promote economic growth nor increase purchases. They create complexities for all involved, while inserting the political process into consumer decisions. By distracting high-tax states from addressing real problems with their tax system, holidays undermine efforts to provide legitimate relief to consumers.”

The Tax Foundation is a nonpartisan, nonprofit organization that has monitored fiscal policy at the federal, state and local levels since 1937.

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Tax Foundation Special Report No. 171, “Sales Tax Holidays: Politically Expedient but Poor Tax Policy,” is available online at <http://www.taxfoundation.org/publications/show/25052.html>. To schedule an interview, please contact Natasha Altamirano, the Tax Foundation’s Manager of Media Relations, at (202) 464-5102 or naltamirano@taxfoundation.org.

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Contact: Natasha Altamirano
Manager of Media Relations
Tax Foundation
Phone: (202) 464-5102
E-Mail: naltamirano@taxfoundation.org

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