For Immediate Release
Contact: Anne Singer, 202-299-1066 x27, anne@ctj.org

Sales Tax Holidays: PR Bonanzas, Policy Boondoggles

Washington, DC – While politicians in seventeen states prepare to reap the public relations benefits of sales tax holidays, the Institute on Taxation and Economic Policy (ITEP) is asking if these events actually achieve the benefits for working families and retailers their proponents claim.

"We just don't know if anyone really benefits from sales tax holidays," says Matthew Gardner, ITEP's Executive Director, "largely because there is no transparency or accountability. Of course politicians love the great PR, but with all the time they spend planning, promoting and implementing these events, they'd do better to focus on long term solutions with real benefits for more taxpayers."

Sales tax holidays are implemented with the goal of giving working families a break on spending, typically during the back to school season. Many have observed, however that other kinds of consumers benefit as much – if not more – from these holidays, including out-of-state shoppers and more affluent consumers with flexibility to spend whenever they like. And obviously, the more a consumer spends, the greater their tax savings, so sales tax holidays tend to reward those with the most money to burn.

To truly help so-called working families to make ends meet, ITEP endorses permanent reforms, including targeted tax credits which are more cost-effective because they ensure the benefit goes specifically to taxpayers the provision targets.

Targeted sales tax credits help compensate for the relatively high cost of basic necessities for lower income households. Using Bureau of Labor Statistics data, ITEP estimates that while the wealthiest families spend only one-sixth of their income on items that are subject to sales taxes, low-income families spend three-quarters of their income on taxable purchases. For households in the middle, about half of their income is spent on taxable items. Put differently, a six percent sales tax amounts to roughly a one percent income tax rate for families in the highest income brackets, a three percent tax on middle-income families and a 4.5 percent tax on the poorest families.

"This is what makes the flat sales tax a textbook case of a regressive tax," said Gardner. "A dollar costs a poor person more than it costs a rich person." Targeted sales tax credits generally give a flat dollar amount for each family member and are available only to taxpayers with income below a certain threshold. Eight states currently provide sales tax relief in this form.

Sales tax holiday are also promoted as a boon for a state's retailers because they are said to boost sales. Evidence supporting this claim is weak, and common sense suggests it may not be true. Incentive programs are more likely to merely shift the timing of purchases made than to motivate an unplanned purchase. "Cash for Clunkers," for example, was used to purchase about 690,000 new cars, but only 125,000 of those would not have otherwise been purchased during that six months period, according to Edmunds.com.

To level the playing field for retailers within their jurisdictions, lawmakers in seven states have begun requiring Internet-based retailers to collect state sales taxes for online purchases (if they partner with business based in those states to solicit sales). Growing numbers of consumers are migrating to the Internet and away from brick and mortar stores. This back to school season, nearly one third of families report they will shop online, according to the National Retail Federation.

"It also doesn't hurt," adds Gardner, "that state and local governments stand to gain billions in lost revenues if they start requiring online outlets to collect sales taxes from consumers."

If retailers and hard pressed consumers do benefit in any significant way from sales tax holidays, the burden is on lawmakers who implement them to demonstrate those benefits – and the costs. The recession has seen several states cancel or fail to renew their annual sales tax holidays because they couldn't afford the revenue loss. "There is sexy tax policy and popular tax policy, and then there is good tax policy," said Gardner. "Sales tax holidays are popular. Targeted tax credits and Internet transaction taxes are decidedly unsexy but they are great policy."

In anticipation of the sales tax holiday season, ITEP is releasing updated versions of its policy briefs on the relevant issues below at http://www.itepnet.org/policy_briefs/policy_briefs.php.

- Sales Tax Holidays
- How Can States Collect Taxes Owed on Internet Sales
- Progressive Options for Sales Tax Relief
- Applying Sales Taxes to Services
- Earned Income Tax Credit

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. ITEP's full body of research is available at www.itepnet.org.