

A break from tax holidays

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Let's take a holiday from the sales tax holiday.

That was a daring thing for any politician to say -- voters do so love their tax loopholes -- but on the lips of a Republican, it was practically radical.

Sen. Richard Stevens, R-Wake, was among the state legislators who not only agreed to balance the 2011-2012 budget on cuts alone, but also adamantly refused to extend the temporary 1-cent sales tax increase that ended in June.

In other words, Stevens, who started his career in Durham's finance department, is not a wet-eyed revenue hound, constantly snuffling pockets and purses in the hope of a windfall.

So, how does a politician like that get to a position like this:

"I would say probably postpone the [tax holiday] program for the short term and evaluate it," Stevens told WRAL. "What does it mean for the economy of the state versus what does it mean for the loss of revenue? If it's more loss of revenue than gain, we ought not to continue the program."

How sensible.

As Stevens and other state legislators surely know, the state's Department of Revenue estimates that it washed its hands of \$14.5 million during last year's pre-school tax holiday in August, and another \$1.7 million during the November tax holiday for Energy Star appliances. (North Carolina, once on the tax holiday bandwagon, whipped the horses to a gallop.)

That's cash that could come in handy (although, we note with a moue of regret, not as handy as the \$1.2 billion-with-a-B that would have come from extending the 1-cent sales tax).

The particularly galling thing, noted by both Stevens and the brains at the non-partisan Institute on Taxation and Economic Policy in Washington, D.C., is that tax holidays don't inspire new spending -- they just shift the timing of purchases.

"There is sexy tax policy and popular tax policy, and then there is good tax policy," said Matthew Gardner, the ITEP's executive director. "Sales tax holidays are popular. Targeted tax credits and Internet transaction taxes are decidedly unsexy but they are great policy."

It's not enough, though, to cancel the sales tax holiday (a move that will, among other things, really annoy retailers who count on a good boost in the third quarter).

North Carolina can have lower sales taxes and still pull in the same revenue -- but to do that, the General Assembly has to get serious about tax reform and try to create a level playing field so that brick-and-mortar stores can compete with Internet vendors, retailers and manufacturers aren't shouldering a higher tax burden than service-based outfits, and North Carolinians pay a lower tax rate across a wider range of businesses.

North Carolina's present tax system "is antiquated, to put it bluntly," Stevens said during an interview with The Herald-Sun. "There are probably \$2 billion worth of tax, call them what you want to, exemptions, exceptions, loopholes. They're all over the place.

"We've put half a dozen on the table and talked about them. Of course the folks who have a special allegiance to those provisions were protesting.

"You're going to have to do it in a comprehensive manner in my opinion. And, in my opinion, make it revenue neutral to the state in the short term so you're not raising money in the process, you're just making it fair moving forward."

If the General Assembly can put in the work and enact real tax reform -- well, then they will deserve a holiday.

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