

## SALES TAX HOLIDAYS

The modern trend of sales tax holidays began in 1997 in New York. The legislature attempted to mitigate residents fleeing the state's high tax structure by creating a special weekend where residents could shop and not pay sales taxes (4). Due primarily to the political benefits of the policy, the sales tax holiday expanded to include 19 states at its peak; down to 18 in 2013 (5).

Sales tax holidays are the result of political expediency, causing unintended distortions in the market, leading to an overcomplicated tax system, and creating a temporary artificial surge in demand rather than conditions for long term growth and opportunity.

### QUICK FACTS

- 18 states have a Sales Tax Holiday planned in 2016 (1).
- Most states hold "back to school" sales tax holidays exempting items such as clothing, computers, and school supplies (2)
- States also issue price caps on items during the period of a sales tax holiday (3)

## SALES TAX HOLIDAYS' MARKETPLACE DISTORTIONS

Politicians claim that sales tax holidays are beneficial because they increase sales, create revenue, and spur job growth in the economy. will actually expand economic opportunity and reduce the burdens and complications of the existing tax code (which sales tax holidays exacerbate). These so-called holidays create multiple distortions in the market.

First, decisions about what products should be temporarily exempted from the tax are determined by politicians – making them inherently political. This allows a few elected officials to use the tax code to create artificial demand for a certain product or class of product.

Sales tax holidays also increase compliance costs for retailers, who must adjust their collection procedures. As states and their political subdivision approve new sales tax holidays for different products and at varying times, retailers are forced to adjust to cope with the changes.

Proponents of tax holidays claim that consumer demand and tax revenues increase during the period, thus increasing job employment, economic growth, as well as impulse purchases of non-exempt products. However, this is not always the case. Demand for the Products is only shifted from one period to another and job creation is temporary. In short, additional revenues generated by these holidays are offset by the inefficiencies and costs they impose on businesses in the form of complicating inventory management and tax code compliance (6). When viewed in this context, sales tax holidays can actually prove counterproductive (7).

The best way to spur substantial growth economy-wise is to pursue tax code simplification, not to introduce short term intervals of complexity designed to boost sales of politically favored products.

## CONCLUSION

The sales tax holiday is a poor substitute for meaningful tax reform. It leads officials to pursue shortsighted political gains rather than substantial reforms to the tax code, and creates unnecessary red tape for retailers. By comparison, broad-based, permanent reductions in the sales tax will help encourage increased purchasing over the long-term, providing a more lucrative and reliable source of revenue for states and local governments.

Endnotes:

1. <http://www.salestaxinstitute.com/resources/sales-tax-holidays>
2. *Ibid*, 2.
3. *Ibid*, 2
4. Joseph Henchman, “Sales Tax Holidays: Politically Expedient by Poor Tax Policy,” Tax Foundation, No. 201 (July 2012), p. 3, <http://taxfoundation.org/article/sales-tax-holidays-politically-expedient-poor-tax-policy-3>
5. <http://www.salestaxinstitute.com/resources/sales-tax-holidays>
6. *Ibid*, 7-9.
7. *Ibid*, 6-7

Americans for Prosperity Foundation’s “Need to Know” informational series explores current events and recent scholarship on public policy issues from a free-market economics perspective. A full list of “Need to Know” briefings is available at [www.AmericansForProsperityFoundation.org/NeedToKnow](http://www.AmericansForProsperityFoundation.org/NeedToKnow).  
©2012 Americans for Prosperity Foundation. All Rights Reserved.