

Sales Tax Holidays

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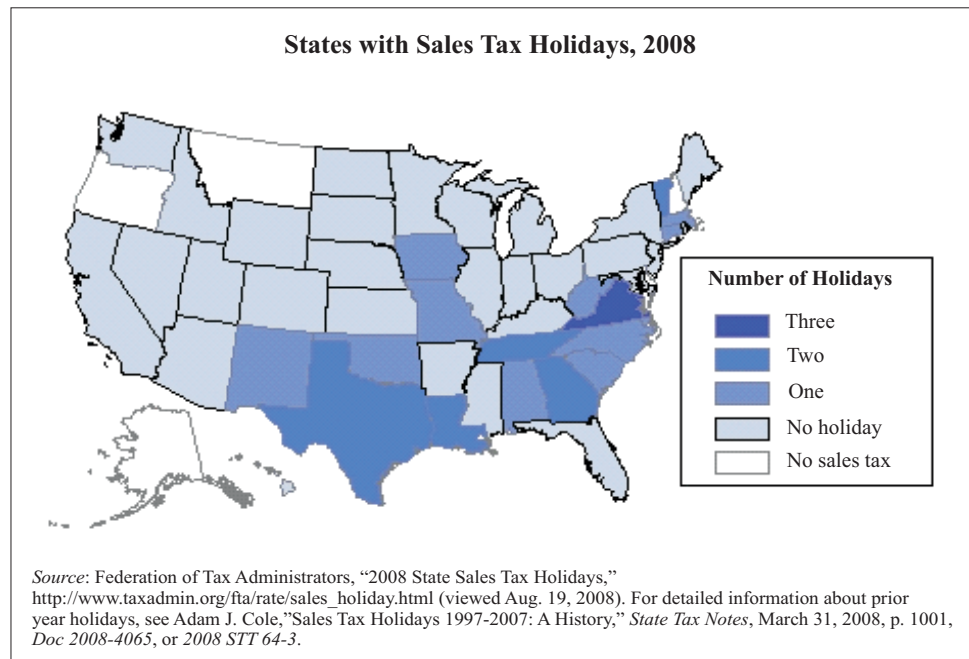
For the past 11 years, a growing number of states have held sales tax holidays, during which they exempt certain items from state — and often local — sales tax for a few days. Sixteen states and the District of Columbia have scheduled 25 tax holidays in 2008 (see map), most of which occurred in August. Holidays most frequently exempt clothing and school supplies, but some exempt computers, energy-efficient appliances, or hurricane preparedness items. Every state except South Carolina limits the prices of exempt items, typically to \$100 for clothing and to between \$15 and \$100 for school supplies. Vermont and Massachusetts exempt nearly all purchases of tangible property less than \$2,000 (Vermont) or \$2,500 (Massachusetts), while Louisiana's tax holiday, also on most tangible personal property, exempts the first \$2,500 of each item. Sales tax holidays will affect about 97 million people in 2008 — nearly one-third of the population of states with sales taxes.

States vary in their treatment of local-option sales taxes during a tax holiday. Some states (such as South Carolina) lift all local taxes statewide, while others (such as Missouri) let local governments opt in or out of participating in the tax holiday. Tennessee suspends all local sales taxes during its holiday, but reimburses local governments for lost revenue.

New York created the first sales tax holiday in 1997 to encourage residents to buy clothing in-state rather than traveling to New Jersey, which levies no sales tax on

clothing. When states had large budget surpluses during the economic boom of the late 1990s, they used sales tax holidays to provide tax relief, but justification for tax holidays changed as the economy declined in recent years. They are now promoted mainly as a way to help parents with back-to-school purchases. And budget deficits have taken a toll: Maryland canceled its holiday from 2007 through at least 2009 and Florida canceled both of its holidays for 2008.

Sales tax holidays can affect consumer behavior in several ways. Consumers may alter the timing of their purchases to fall within the tax holiday to take advantage of the suspended tax. The holiday also encourages people to buy cheaper items priced under the caps. Finally, consumers may travel to a neighboring state to avoid their own state's sales tax. Of course, that would leave them liable to pay use tax on their purchases in their home state — but almost no one pays that and states rarely enforce it.



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