

## SALES TAX HOLIDAYS AND REVENUE EFFECTS IN GEORGIA\*

### Introduction

Sales tax holidays (STHs) have become common occurrences in many states over the last decade, with 22 states plus the District of Columbia holding STHs since 2000 (Cole 2008; Federation of Tax Administrators). Most STHs are held in early to mid-August to exempt from taxation items that families typically buy during the back-to-school shopping season. Several states have also held sales tax holidays covering such things as ENERGY STAR® rated appliances and emergency supplies. Georgia's first STH came in 2002, exempting clothing, school supplies, computers, and related items from state and local sales taxes for two days in March and two days in August. From 2003 through 2009, the STH for these items was held once per year for four days during the back-to-school season. In October 2005, Georgia added a STH for household appliances and other items carrying the ENERGY STAR label. Neither the back-to-school STH nor the ENERGY STAR STH was renewed for 2010 due to budget concerns.

The common arguments in support of STHs are that they lower the final price of targeted retail goods such as school supplies and clothing during back-to-school shopping, benefiting lower income families; that they encourage purchase of goods such as computers or

energy efficient appliances to help achieve other goals of policy makers; that they stimulate the state economy through add-on sales of non-exempt goods; or that they enable retailers to reduce prices to compete with shops in neighboring states or online (Marwell and McGranahan 2010; Robyn, Cohen, and Henchman 2009).

Though the economic literature is somewhat limited, it does provide some evidence against these arguments for STHs. Among the findings are that households tend to shift consumption in time to take advantage of a STH rather than increasing consumption overall, that higher income households are more likely than lower income ones to shift consumption in time, and that retailers do not fully pass along the tax savings from STHs to consumers, absorbing a significant portion into profits instead (Harper et al. 2003; Marwell and McGranahan 2010). There is some evidence that STHs can induce consumers who would not otherwise buy a computer to purchase lower priced desktop models (Cole 2009a), but there is no credible empirical evidence to date that STHs provide a material boost to a state's economy or tax revenues either through add-on sales of non-exempt items or by making the state's retailers more competitive with those of neighboring states.

## Effects on Georgia Sales Tax Revenues

While the economic benefits of STHs are unclear, the revenue effects are not. Using Georgia Department of Revenue reports of monthly sales tax collections from the state's retailers over the period from June 1986 through August 2010, we estimate the state revenue effect of Georgia's back-to-school STHs on state sales tax revenues. Controlling for personal income, home values (as a proxy for household wealth), statutory sales tax rates, and seasonal and dynamic effects, the data show that Georgia's back-to-school STHs reduced state revenues by 8.0 to 10.6 percent of otherwise expected monthly sales tax revenues or \$36 to \$50 million annually. Local governments, on average, would experience similar percentage losses.

## Summary of Conclusions

Overall, the evidence to date on sales tax holidays does not support the arguments of their proponents. Consumer benefits from a STH depend on how much of the tax savings is passed along by retailers rather than being retained by them as added profits; and what benefits consumers realize are not targeted toward lower income families. The benefits are realized by retailers and by those households best able to shift consumption to the STH period—i.e. higher income households. There is some support for the notion that targeted STHs help promote computer ownership, but the evidence to date with regard to STHs boosting sales of non-exempt items or attracting significant cross-border shoppers suggests they do not. The cost of these uncertain benefits, in terms of lost state revenues, is substantial—an estimated \$36 to \$50 million annually over recent years.

Further analysis of Georgia's experience with sales tax holidays may help to refine estimates of the costs and benefits of STHs, but will require additional data from sales tax returns. In particular, Georgia sales tax returns include data as to the tax base that would enable the analysis of exempt and non-exempt retail sales to gauge effects on economic activity and timing behavior; detailed data by county would enable the analysis of cross-border effects; and detail as to estimated and final payments would more precisely associate collections with the month in which the taxable sales occurred, allowing for more precise estimates of revenue effects.

## References:

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## Note

\* This policy brief is based on Fiscal Research Center report no. 228 "Sales Tax Holidays and Revenue Effects in Georgia" by the same author, Andrew Young School of Policy Studies, Georgia State University, February 2011.

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