



Florida
TaxWatch

Supporting Sunshine State Shoppers

Examining Florida's Back To School Sales Tax Holidays

FEBRUARY 2017



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Dear fellow taxpayer,

Sales Tax Holidays, particularly the Back to School variety, have become a tradition in Florida. Florida was one of the first states to begin offering taxpayers and chance to avoid paying sales tax on clothes and supplies for the new school year. Since its first Back to School Holiday in 1998, Florida has held 15 of them (skipping only four years during recessions), with an estimated aggregate savings to the taxpayers of \$543 million.

The sales tax holiday concept has spread to other states, as well as to other purchases, including hurricane supplies, energy efficient appliances, and even guns and ammunition. There were 16 states, home to 130 million Americans, that held at least one holiday in 2016.

These holidays are important to the retail industry, and their popularity has made the Back to School Holiday the second biggest shopping weekend in Florida, behind only Black Friday.

Despite this popularity, sales tax holidays do have detractors, who claim that the holidays are bad tax policy, cost the state revenue, and do little to stimulate the economy. Proponents counter that they are a great way to give money back to taxpayers, help retailers, boost the economy and perhaps even increase state revenues.

Florida TaxWatch has undertaken this analysis to examine the impact on taxpayers, retailers and the state and to give lawmakers the information they need as they consider future tax holidays.

Sincerely,

Dominic M. Calabro

INTRODUCTION

Sales tax holidays have become a popular method for reducing the burden on taxpayers. During these holidays, which typically last three to ten days, certain goods that are usually subject to the sales tax are exempt. The most common holiday is the Back to School Sales Tax Holiday, when sales of clothes and sometimes school supplies, books, and computers are exempt.

Support in the Florida Legislature (generally bi-partisan) has grown for these holidays over time, to the extent that they have become standard, with holidays skipped only in years of recession and budget deficits. The 15 Back to School Sales Tax Holidays held in Florida have saved taxpayers an estimated \$543 million.¹

The impact of increasing discretionary spending in the Sunshine State is very real, as the retail industry is extraordinarily important to Florida's economy. Florida's 273,000 retailers employ 2.7 million people, providing one out of every four jobs in the state, pay \$49 billion in annual wages, and contribute \$155.4 billion in gross domestic product.² The sales tax is the most important revenue source for the state of Florida, bringing in \$25.2 billion annually. It also provides 78 percent of the state's General Revenue; the main funding source for education, human services, and public safety.

With the increased use of sales tax holidays, it is essential that the impact on taxpayers, the retail industry, and the state of Florida is thoroughly assessed.

THE HISTORY OF TAX HOLIDAYS

Sales tax holidays can be traced back to 1980, when Michigan and Ohio temporarily exempted automobiles to boost sales. The first sales tax holiday of the modern era was held in 1997 in New York, in an effort to keep shoppers from crossing the border into New Jersey, where there was no sales tax. For one week, clothing and footwear priced less than \$500 was exempt from the sales tax.

Florida was the second state to try a holiday (1998), followed by Texas (1999).³ While cross-border shopping was cited as a major reason in many states' debates over tax holidays, this was not the case in Florida. A recent study of sales tax holidays explained that, "...with the economy reaching the peak of its business cycle in the late 1990s, the states' budgets were in surplus, and this policy was one way to offer tax relief to the states' residents."⁴

Since 1997, 25 states and the District of Columbia have held sales tax holidays. In 2016, 17 states held a total of 25 sales tax holidays (see Appendix A for complete list).⁵ More than 130 million Americans (40 percent of total U.S. population) live in states that held a sales tax holiday last year,⁶ and there are already 19 holidays scheduled for 2017.⁷

1 Florida TaxWatch calculations, using data from the Office of Economic and Demographic Research.

2 Florida Retail Federation, 2015-16 Impact Report.

3 Sales Tax Institute, Inside Sales Tax Holidays.

4 Cole, Adam J., University of Michigan, "Sales Tax Holidays: Timing Behavior and Tax Incidence," 2009.

5 Federation of Tax Administrators, <http://www.taxadmin.org/2016-sales-tax-holiday>.

6 Florida TaxWatch calculations, using data from the U.S. Census Bureau.

7 Federation of Tax Administrators, <http://www.taxadmin.org/2017-sales-tax-holiday>.

In 1998, the Florida Legislature passed the Florida Residents' Tax Relief Act, which created a sales tax holiday where clothing items priced at less than \$50 would be exempt from Florida's state and local sales and use tax. Florida's holiday was held in late summer, designed to help families with "back to school" shopping.

The Florida Legislature has enacted 15 Back to School Holidays (ranging from three to 10 days) in the 19 sessions since 1998, including a three-day holiday in 2016 (see Table 1). In addition to clothing, the exempt items have been expanded to include wallets/purses, school supplies and occasionally books. Starting in 2013, computers and computer accessories (up to \$750) were added, although they were not included in the 2016 holiday.

Table 1 – Back to School Sales Tax Holidays in Florida

| PURCHASES ARE EXEMPT IF SALES PRICE IS LESS THAN: | | | | | | | | | | |
|---|----------------|------|-----------------------|------------------|-------|-----------|--------------------|------------------------|---------|----------|
| YEAR | DATES | DAYS | CLOTHING/ FOOTWEAR | WALLETS/ BAGS | BOOKS | COMPUTERS | SCHOOL SUPPLIES | TAX SAVINGS (MILLIONS) | | |
| | | | | | | | | STATE | LOCAL | TOTAL |
| 1998 | August 15-21 | 7 | \$50 | NE | NE | NE | NE | \$16.50 | \$2.70 | \$19.20 |
| 1999 | July 31-Aug.8 | 9 | \$100 | \$100 | NE | NE | NE | \$30.00 | \$4.70 | \$34.70 |
| 2000 | July 29-Aug.6 | 9 | \$100 | \$100 | NE | NE | NE | \$35.60 | \$5.60 | \$41.20 |
| 2001 | July 28-Aug. 5 | 9 | \$50 | \$50 | NE | NE | \$10 | \$25.00 | \$5.10 | \$30.10 |
| 2004 | July 24-Aug. 1 | 9 | \$50 | \$50 | \$50 | NE | \$10 | \$29.80 | \$5.70 | \$35.50 |
| 2005 | July 23-31 | 9 | \$50 | \$50 | \$50 | NE | \$10 | \$31.30 | \$6.60 | \$37.90 |
| 2006 | July 22-30 | 9 | \$50 | \$50 | \$50 | NE | \$10 | \$32.10 | \$7.20 | \$39.30 |
| 2007 | August 4-13 | 10 | \$50 | \$50 | \$50 | NE | \$10 | \$38.10 | \$8.50 | \$46.60 |
| 2010 | August 13-15 | 3 | \$50 | \$50 | \$50 | NE | \$10 | \$21.30 | \$4.80 | \$26.10 |
| 2011 | August 12-14 | 3 | \$75 | \$75 | NE | NE | \$15 | \$25.50 | \$5.70 | \$31.20 |
| 2012 | August 3-5 | 3 | \$75 | \$75 | NE | NE | \$15 | \$25.90 | \$5.90 | \$31.80 |
| 2013 | August 2-4 | 3 | \$75 | \$75 | NE | \$750* | \$15 | \$27.70 | \$6.30 | \$34 |
| 2014 | August 1-3 | 3 | \$100 | \$100 | NE | \$750** | \$15 | \$32.20 | \$7.10 | \$39.30 |
| 2015 | August 7-13 | 10 | \$100 | \$100 | NE | \$750** | \$15 | \$55.40 | \$12.40 | \$67.80 |
| 2016 | August 5-7 | 3 | \$60 | \$60 | NE | NE | \$15 | \$22.90 | \$5.30 | \$28.20 |
| | | | | | | | Total | \$449.30 | \$93.60 | \$542.90 |

1. Savings in the revenue impact as estimated by the Florida Revenue Estimating Conference at the time of Passage

2. NE = Not exempt from sales tax

*Computers exempt if sales price was less than \$750

**First \$750 of computer sales price exempt

Source: Florida TaxWatch, from information from the Florida Legislature and the Office of Economic and Demographic Research, January 2017

Several states, including Florida, have extended the sales tax holiday to other items. Florida has held four separate holidays for hurricane preparedness supplies and two for energy efficient appliances. Alabama, Louisiana, Texas and Virginia have also had hurricane preparedness holidays. South Carolina, Louisiana, and Mississippi have had holidays for firearms, ammunition, and hunting supplies. The largest holiday was held in 2004 in Massachusetts, where all goods up to \$2,500 were exempted. Louisiana has held several two-day, partial (2 percent tax rate reduction) holidays for all goods up to \$2,500, including one planned for 2017.⁸

In 2004, Florida expanded the holiday concept beyond the sales tax, offering a month-long gas tax holiday of 8 cents per gallon. This was less successful, since the gas tax is not as visible as the sales tax and the reduction went largely unnoticed by most motorists as gas prices continued to rise.

Recently, the Legislature has considered creating even more holidays, including a “mega-holiday,” which would have included a small business holiday, a technology holiday, and a hunting and fishing holiday. There has also been an effort to make the Back to School holiday a permanent annual event.⁹

IMPACT ON TAXPAYERS, RETAILERS AND THE STATE

Taxpayers - Florida taxpayers have benefited significantly from the Back to School Sales Tax Holiday. It is estimated they have saved nearly \$543 million¹⁰ in state and local sales taxes (see Table 1). The tax exemption reduces the final price by at least 6 percent (the state tax rate), and depending on which county the purchase takes place in, there can be additional savings of 0.5 percent to 1.5 percent (local option sales tax rate).¹¹ While out-of-state residents can take advantage of the tax savings, the Legislature has tried to limit tax exempt sales to visitors by excluding sales from theme parks, entertainment complexes, public lodging establishments, and airports.

Furthermore, due to the intense competition in the retail sector, many stores advertise special discounts during the holiday, increasing the benefit to consumers.

The tax holiday is popular among consumers and anecdotal evidence abounds that shoppers flock to stores during the holidays. A Texas study¹² sought to determine if the sales tax holiday motivates consumers to shop. It surveyed 710 mall shoppers and found that “the holiday is not only incredibly popular, but also very important to the decision to shop.” The study concluded, “Finally, although most shoppers indicated that they had a positive shopping experience, even during the crowded sales tax holiday weekend, those who indicated that the sales tax holiday was important noted the experience was even more positive. This result is good news for retailers and others interested in continuing the sales tax holiday.”¹³

Retailers - The sales tax holiday is also very important to retailers, as evidenced by the strong support of the Florida Retail Federation and other business associations. Late summer is usually a slow retail period and many retailers see an increase in foot traffic and sales in their stores.

A study of the August 2010 Florida Back to School Sales Tax Holiday by the Washington Economics Group (WEG) found that the holiday resulted in increased sales in Florida.¹⁴ The study compared sales from 2009, when there was no holiday, to 2010, when the holiday was reinstated. It found that gross sales increased by 3.8 percent from August 2009 to August 2010 and that \$293 million of that increase was attributable to the sales tax holiday.¹⁵

9 Florida TaxWatch, “Legislative Update,” numerous editions.

10 See table on previous page “Back to School Sales Tax Holidays in Florida.”

11 Florida law allows counties to levy a number of different local option sales surtaxes. 61 of Florida’s 67 counties levy a local sales tax. Until recently, rates ranged from 0.5 to 1.5 percent. On January 1, 2017, Liberty County became the first county to reach a local sales tax rate of 2.0 percent but that rate has not been in effect during any tax holiday. See Florida TaxWatch *How Florida Counties Compare*, July 2016.

12 Mogab, John W. and Michael J. Pisani, “Shoppers’ perceptions of the State Sales Tax Holiday: A Case Study from Texas,” *American Journal of Business*, Fall 2007.

13 Ibid.

14 Washington Economics Group, “Economic Impact Analysis of the 2010 Back to School Sales Tax Holiday.” February 9, 2011.

15 Ibid.

The WEG study also included a survey of five major Florida retailers which found that for those retailers, sales of all goods increased significantly from the same dates in the previous year and from the prior week in 2010 (see Table 2). All sales grew by 50 percent and, notably, sales of non-exempt goods grew by 35 percent. The retailers also reported that the holiday increased store traffic, as the number of transactions increased by 39 percent and 37 percent, compared to the prior week and year respectively. Finally, the major retailers reported they had to add labor to deal with higher sales during the tax holiday, adding an average of 8,300 payroll hours over the three-day event.

*Table 2 - Effect of Back to School Sales Tax Holiday August 13-15, 2010
Major Florida Retailers*

| | CHANGE FROM SAME PERIOD PREVIOUS YEAR | | | CHANGE FROM PRIOR WEEK | |
|-------------------------|---------------------------------------|------------------|----------------|------------------------|------------------|
| | ALL SALES | NON-EXEMPT SALES | STORE TRAFFIC* | STORE TRAFFIC | ADDED WORK HOURS |
| Retailer 1 | 49% | 49% | 43% | 36% | 10,000 |
| Retailer 2A | 80% | 54% | 52% | 34% | 11,449 |
| Retailer 2B | 56% | 30% | 52% | 34% | 3,991 |
| Retailer 3 | 16% | 9% | 9% | n/a | n/a |
| Retailer 4 | 63% | 63% | 47% | 62% | 8,000 |
| Retailer 5A | 38% | 15% | 18% | 30% | 20% |
| Retailer 5B | 44% | 24% | n/a | n/a | 25% |
| Average | 50% | 35% | 37% | 40% | 8,360 |
| *Number of transactions | | | | | |

Source: The Washington Economics Group from Florida Department of Revenue Data

A review of Florida Department of Revenue monthly sales tax data by Florida TaxWatch found that in every year from (calendar year) 2011 to 2016, sales tax collections during August¹⁶ have experienced healthy growth over the same month in the previous year. In every year except one (2015, when there was a ten-day holiday) the growth rate during the holiday month was larger than the growth for the entire year. Each of those years included a sales tax holiday, so it is difficult to quantify how much of that growth is a result of the holidays, but is apparent the holidays did not result in decreasing collections. In fact, months with holidays have been enjoying above average growth. In 2015, the growth from the previous August was only 3.1 percent. However, in the other five years, growth ranged from 5.5 percent to 8.1 percent.

State - There has been much debate about the impact of sales tax holidays on Florida's state and local governments. From a state budgeting perspective, the impact is known. Since the Florida Legislature must pass a balanced budget, the state's Revenue Estimating Conference estimates the impact of any bill that affects state and/or local revenue. The 2016 holiday was estimated to cost the state \$22.9 million, and local governments \$5.3 million.¹⁷ Any time a bill is introduced that will have a negative fiscal impact (i.e. reducing tax collections), the bill's analysis identifies the estimated loss in revenue. In passing the bill, the Legislature has taken that reduction into consideration, and has determined that the state budget can absorb that loss.

¹⁶ Sales taxes are not due to be remitted to the state until the month following when they were collected. For this examination, Florida TaxWatch used September collections data, which reflect August sales.

¹⁷ Office of Economic and Demographic Research, Measures Affecting Revenue and Tax Administration - 2016 Regular Session, June 23, 2016.

In the case of sales tax holidays, the estimate is almost likely very conservative, because the state's revenue estimates are "static," which means that the estimate only considers the loss of revenue from the holiday, and does not consider any additional revenue that may be generated as a result of increased consumer activity.

In addition, while some of the sales may simply be a shift in timing—consumers purchasing something during the tax-exempt period that they were going to buy anyway—there is evidence that at least a significant amount is not time-shifted.

The WEG study reports that there may be some time-shifting of purchases, but it certainly is not a major factor, and that overall spending is increased. A study by the Federal Reserve Bank of Chicago (Fed) states that overall spending is increased by 8 percent, including 98 percent and 193 percent for shoes and children's clothes respectively, and did "not find any evidence of inter-temporal or cross-product substitution."¹⁸

The Fed study also found that consumers from neighboring states also increase spending if they live close to the border of a state having a sales tax holiday. These purchases, as well as those by tourists, would not be offset by any shift in the timing of the purchases.

The Fed study concludes that its results suggest that "sales tax holiday policy is effective in fulfilling the objective of increasing consumer spending by giving them incentives that reduce prices through reduced tax burden."¹⁹

This is consistent with the WEG study that "follows standard economic theory and is based on the premise that consumers react positively to lower prices, and that the enthusiasm that sales tax holidays generate through advertising provides a further boost to sales. It also takes into consideration the highly competitive nature of retailing—in expectation and preparation for increased shopper traffic, retailers compete by offering additional discounts."²⁰ The WEG study determined that the result of these increased sales is that the sales tax holiday resulted in higher tax collections compared to years when there was not a sales tax holiday in Florida. The study estimates that instead of decreasing tax collections, sales tax revenues were increased by \$7 million.²¹

There is not a more current opportunity to compare a sales tax holiday year in Florida to a year without one, since 2009 was the last year that did not have a holiday. However, assuming the same impact estimated by WEG, relative to the growth of sales tax collection from 2010 to 2017, a back to school sales tax holiday in Florida next year could produce more than \$10 million in sales tax collections.²²

It should be noted that these impacts are only the immediate short term benefits of a sales tax holiday. Holidays also have the potential for positive longer term impacts on employment, income, and tax revenues. When consumers buy clothing, direct effects impact the retail and apparel industries.

18 Agarwal, Sumit and Leslie McGranahan, "Spending Responses to State Sales Tax Holidays," Federal Reserve Bank of Chicago, November 2012.

19 Ibid.

20 Washington Economics Group, "Economic Impact Analysis of the 2010 Back to School Sales Tax Holiday." February 9, 2011.

21 Ibid.

22 Florida TaxWatch calculations based on 2011 WEG study. The growth in total sales tax liability from FY 2010-11 (\$17.671 billion) to FY 2017-18 (\$26.473 billion) of 49.8 percent was applied to the WEG estimate of \$6.9 million. The result is \$10.3 billion in added sales tax collections.

These industries in turn support other businesses, creating indirect effects. Finally, induced effects occur when the directly and indirectly impacted industries spend their increased earnings, creating more demand for other goods.

SALES TAX HOLIDAY IMPACTS IN OTHER STATES

Georgia

Another WEG study²³ used econometric modeling to further assess the importance of the retailing sector in generating direct, indirect, and induced economy-wide impacts from a sales tax holiday in Georgia. The report estimated a holiday in Georgia has the potential to increase economic activity by a “very conservative” \$475.8 million from increased sales of normally taxable items, some of which would still be taxable during the holiday.²⁴ This would result in an additional \$33.9 million in sales tax collections, meaning Georgia would have a net gain of \$5 million from the sales tax holiday. The report further estimates that this would create 6,452 full-time equivalent jobs and \$182.2 million in labor income, mostly through temporary help and overtime work for existing employees.²⁵ Of these labor-related gains, 59 percent would occur in retail and 41 percent would occur in other industries, being spread across the economy.

Ohio

A study by the University of Cincinnati Economics Center²⁶ found that a 2015 sales tax holiday in Ohio led to “an increase of about \$8 million in sales tax collections while foregoing taxes of \$3.5 million on exempted goods during the sales tax holiday period, resulting in a net increase of \$4.7 million.” The report also showed that sales were not reduced during the months prior to and subsequent to the holiday, although a shifting in the timing of purchases could be expected in the long run.

It also concluded the holiday was enough of a draw to bring people in from neighboring states. Sales tax collections in Ohio border counties increased by 15.5 percent while non-border counties saw collections increase of 4.6 percent.²⁷

23 Washington Economics Group, “An Analysis of the Costs and Benefits of a Sales Tax Holiday in the State of Georgia, January 5, 2012.

24 Ibid.

25 Ibid.

26 University of Cincinnati, Economic Center, “Economic Analysis on the Effects of Back-to-School Sales Tax Holiday in Ohio,” February 2016.

27 Ibid.

ADDRESSING CRITICISMS OF TAX HOLIDAYS

Holidays Do Not Increase Sales, They Just Shift the Timing of Purchases - There are studies that conclude there is no economic stimulus because people would have made the same purchases at another time.²⁸ While there is likely some shifting of purchases, there are several studies (some discussed in this report) that find shifting is not a major factor. A Federal Reserve Bank of Chicago study did not find “any evidence of inter-temporal or cross-product substitution.”²⁹ A study of the 2010 Florida Back to School Sales Tax found that shifting was not enough to keep overall taxable sales from increasing.³⁰

The often-cited study from the University of Michigan³¹ used to support this contention (and the one Florida TaxWatch found with the highest estimate of shifting), attributed between 37 and 90 percent of increased sales of computers to timing response. Computers have only been part of three Florida Back to School Sales Tax Holidays and it makes sense that of the items included in the holidays, this higher cost of computers would make them the most susceptible to time-shifting. Still, the study finds that as much as 63 percent of computer sales are not time shifted. It is reasonable to expect that there would be even less shifting with purchases of clothing and especially taxable “impulse buys” made during the tax holidays.

Bad Tax Policy - Opponents cite sales tax holidays for distorting the market by offering preferential tax treatment of certain products. It is also said they mask deficiencies in state tax systems and reduction in the sales tax rate would be a better approach. Generally, it is thought that broader bases and lower rates promote good tax policy; but Florida’s sales tax code includes more than 200 exemptions.³² The most common sales tax holiday item—clothing—is permanently exempt or receives other preferential tax treatment in eight states.³³ Sales tax holidays are temporary and relatively small. The \$22.9 million estimated impact of the 2016 holiday is 0.8 percent of state general revenue and one-half of one percent of total state taxation.

Due to varying local option taxes, sales taxes in Florida are not uniform. Sales tax holidays are the one time during the year that all Floridians pay the same tax rate (0 percent) on covered items. It also briefly removes the competitive tax advantage many on-line retailers have over Florida’s brick and mortar retailers, since many remote sellers do not have to collect tax on Florida sales.³⁴

Of course, reducing the sales tax rate would benefit taxpayers more. But even a one-quarter of one percent cut in the state sales tax rate would cost more than \$1 billion (or at least reduce the amount available for the next budget by that amount.) Sales tax holidays provide a feasible way to provide tax relief.

28 Institute on Taxation and Economic Policy, “Sales Tax Holidays: A Boondoggle,” July 2012.

29 Agarwal, Sumit and Leslie McGranahan, “Spending Responses to State Sales Tax Holidays,” Federal Reserve Bank of Chicago, November 2012.

30 Washington Economics Group, “Economic Impact Analysis of the 2010 Back to School Sales Tax Holiday,” February 9, 2011.

31 Cole, Adam J., “Sales Tax Holidays: Timing Behavior and Tax Incidence,” Ph.D dissertation, University of Michigan, 2009.

32 Florida Revenue Estimating Conference, 2016 Florida Tax Handbook.

33 Tax Foundation, Map: State Sales Taxes and Clothing Exemptions, <http://taxfoundation.org/blog/map-state-sales-taxes-and-clothing-exemptions>

34 Florida TaxWatch has done considerable research on this issue. For a summary, see <http://www.floridatxwatch.org/resources/pdf/EFairnessPiece.pdf>

Tax holidays are also non-recurring, each one must be approved by the Legislature, and one-time tax relief efforts provide more flexibility than recurring tax cuts. History has shown this flexibility to be helpful, as Florida did not hold a sales tax holiday during the recessions.

Burdensome for Businesses, Especially Small Businesses - Any tax change can increase administrative costs for businesses, such as reprogramming computerized registers. But at least in Florida, most businesses feel it is worth the trouble, as evidenced by the strong support of the Florida Retail Federation, the Florida Chamber of Commerce, Associated Industries of Florida, and the National Federation of Independent Business-Florida (NFIB).³⁵ NFIB, which represents small business, even supports legislation to create a Small Business Sales Tax Holiday.³⁶ Florida allows businesses to opt out of the holiday if eligible items make up less than five percent of their sales. In 2016, only five stores chose not to participate.³⁷

Popularity is Declining - One report that says there is evidence that fewer shoppers are participating in sales tax holidays uses four quotes to support the claim of declining participation.³⁸ Two of the people cite stores being too crowded as their reason they will not be participating in another holiday, and another cites out-of-stock items. This brings to mind the Yogi Berra quote: “Nobody goes there anymore, it’s too crowded.” In fact, the Florida Retail Federation reports that the Back to School Sales Tax Holiday has become the second largest shopping weekend after Black Friday.³⁹

35 Florida Executive Office of the Governor, press release, “Gov. Scott Signs Legislation that Cuts \$121 Million in Taxes for Florida Families.” 2014.

36 NFIB/Florida, press release,, “Small Business Applauds Passage of Sales Tax Holiday in Committee, March 23, 2015.

37 The Florida Times-Union, “Florida Sales Tax Holiday is this Weekend,” August 2, 2016.

38 Tax Foundation, “Sales Tax Holidays: Politically Expedient but Poor Tax Policy,” July 25, 2106.

39 Florida Retail Federation, Press Release, “Back-to-School Sales Tax Holiday Shopping Weekend Kicks Off this Friday,” August 1, 2106.

CONCLUSION

Few legislative decisions have been as popular as Florida's sales tax holidays. They have become more than just a tax break. They are a traditional back-to-school event that neighbors talk about and businesses promote. There is likely no other tax break that generates such excitement among taxpayers while stimulating business activity with increased advertising and competition.

Sales tax holidays provide a unique chance for taxpayers to choose whether to take advantage of a tax break. And Floridians have taken advantage, saving an estimated \$543 million during the 15 Back to School Sales Tax Holidays Florida has held since 1998. There are few tax breaks that resonate more with Floridians while providing a brief lesson in how we pay our taxes. Most tax cuts are not as visible and many are not even noticed by taxpayers, but the sales tax holiday provides savings that Floridians actually consider and discuss. Appropriately for the kick-off of the school year, it's a teachable moment about how the sales tax affects us in our everyday purchases.

There is growing evidence that not only do these holidays save taxpayers' money, but they also increase sales, boosting retail business and generating economic benefits. These studies corroborate years of anecdotal reports from retailers. A study of Florida's 2010 sales tax holiday estimated the tax-free period resulted in \$7 million in additional taxes, as sales of non-exempt goods also increased.⁴⁰ Florida TaxWatch calculations show that assuming a similar effect, adjusted to reflect larger overall current tax collections, suggests that a Back to School Sales Tax Holiday in 2017 could result in more than \$10 million in tax collections.

Any economic benefits from sales tax holidays are certainly welcome, but whether or not holidays "pay for themselves" does not impact the true value of such tax relief. Economic benefits are often cited in support of the holidays, but that is not really the reason Florida began offering them. The main point of tax holidays is to give something back to taxpayers, rewarding them for funding the operation of government with their hard-earned income. It should be remembered that with the exception of the three-year period affected by the Great Recession (calendar years 2007-2009), sales tax collections have increased every year. Even using the state estimates of the cost of sales tax holidays, they are "paid for" with growth revenues.

Tax holidays are popular with citizens, important for the state's retailers and beneficial to the state. Whenever feasible, the Legislature should continue to offer Back to School Sales Tax Holidays. They are a visible, tangible way of giving money back to taxpayers.

40 Washington Economics Group, "Economic Impact Analysis of the 2010 Back to School Sales Tax Holiday," February 9, 2011.

APPENDIX A – 2016 STATE SALES TAX HOLIDAYS

| STATE | DAYS | ITEMS INCLUDED - MAXIMUM PRICE | 2016 DATES |
|-------------|------|--|--------------------------|
| Alabama | 3 | hurricane preparedness supplies - \$60 generators - \$1,000 | February 26-28 |
| Alabama | 3 | clothing - \$100 computers - \$750 school supplies - \$50 books - \$30 | August 5-7 |
| Arkansas | 2 | clothing - \$100 school supplies - no cap | August 6-7 |
| Connecticut | 7 | clothing and footwear - \$100 | August 21-27 |
| Florida | 3 | clothing - \$60 supplies - \$15 | August 5-7 |
| Georgia | 2 | clothing - \$100 school supplies - \$20 computers - \$1,000 | July 30-31 |
| Georgia | 3 | Energy Star/WaterSense products - \$1,500 | September 30 - October 2 |
| Iowa | 2 | clothing - \$100 | August 5-6 |
| Louisiana | 2 | all goods - \$2,500 (2% rate reduction) | August 5-6 |
| Louisiana | 3 | firearms, ammunition and hunting supplies (2% rate reduction) | September 2-4 |
| Maryland | 3 | Energy Star appliances - no cap | February 13-15 |
| Maryland | 7 | clothing & footwear-\$100 | August 14-20 |
| Mississippi | 2 | clothing & footwear - \$100 | July 29-30 |
| Mississippi | 3 | firearms, ammunition and hunting supplies - no cap | August 26-28 |
| Missouri | 7 | Energy Star appliances - \$1,500 | April 19-25 |
| Missouri | 3 | clothing - \$100 computers - \$1,500 school supplies - \$50 | August 5-7 |
| New Mexico | 3 | clothing - \$100 computers - \$1,000 computer equip. - \$500 school supplies - \$30 | August 5-7 |
| Ohio | 3 | clothing - \$75 school supplies - \$20 instructional material - \$20 | August 5-7 |
| Oklahoma | 3 | clothing - \$100 | August 5-7 |

| | | | |
|----------------|---|--|-------------|
| South Carolina | 3 | clothing - no cap | August 5-7 |
| | | school supplies - no cap | |
| | | computers - no cap | |
| Tennessee | 3 | clothing - \$100 | July 29-31 |
| | | school supplies - \$100 | |
| | | computers - \$1,500 | |
| Texas | 3 | generators - \$3,000 | April 23-25 |
| | | storm devices - \$300 | |
| | | preparedness items - \$75 | |
| Texas | 3 | Energy Star appliances - no cap | May 28-30 |
| | | air conditioners - \$6,000; other - \$2,000 | |
| | | refridgerators - \$2,000 | |
| Texas | 3 | clothing, backpacks and school supplies- \$100 | August 5-7 |
| Virginia | 3 | clothing - \$100 | August 5-7 |
| | | school supplies - \$20 | |
| | | Energy Star appliances - \$2,500 | |
| | | hurricane preparedness items - \$60 | |
| | | generators - \$1,000 | |

Source: Federation of Tax Administrators, July 2016.

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As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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