

DISCUSSION/DIRECTION

Sales Tax Holiday for 2011

Critics say states should discontinue tax holidays

Tax groups say wealthy are main beneficiaries

By Jayne O'Donnell and Oliver St. John
USA TODAY

The back-to-school sales tax holidays that start today in many states may be popular with politicians and retailers, but critics say revenue-starved states should abandon them.

Seventeen states plan to give shoppers a break on sales taxes for school-related purchases this season. Massachusetts and Arkansas added a holiday for the first time, while Illinois dropped its holiday this year.

Illinois State Sen. Tol Hutchinson, a Democrat who was chief sponsor of the state's holiday last year, says Illinois "just cannot afford it this year."

Massachusetts Gov. Deval Patrick, a Democrat, acknowledged last week that his state decided to have a sales tax holiday "not because it's particularly fiscally prudent but because it's popular," the *Boston Globe* reported.

New York was the first state to enact a back-to-school sales tax holiday in 1997. Other states soon followed, sometimes to keep residents from crossing state lines to shop in states with tax holidays. National Retail Federation CEO Matthew

Shay says the holidays "bring people into stores like few other promotions." Studies have shown, however, that the holidays simply shift the timing of purchases consumers already planned.

The tax holidays can help consumers reap "a modest windfall," says Carol Kohnis-Graves of tax publisher CCH. But she warns consumers to watch out for exceptions, such as exclusions for athletic wear.

The Tax Foundation and the Institute on Taxation and Economic Policy say the holidays mostly benefit wealthy families. Low- and middle-income families don't have the discretionary income or time to shop only on the tax holidays, the groups contend.

The Tax Foundation says states should simply cut sales taxes if they want to give consumers a break. Policy think tank ITEP says states should instead offer sales tax credits to consumers who need them the most. To get the credits, eligible consumers would have to ask for them on their tax returns.

A sales tax credit could be designed to target the low- and middle-income families lawmakers want to help, says ITEP's Matthew Gardner.

"The striking thing about sales tax holiday laws," Gardner says, "is that policy people all over the ideological spectrum agree they're a dumb idea."

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