

Briefings

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Sales Tax Holiday Provides Real Benefits to Consumers and Florida's Economy

In 1998, the Florida Legislature passed its first "Florida Residents' Tax Relief Act," which created a "sales tax holiday" where certain purchases of clothing would be exempt from Florida's state and local sales and use tax. It was held in late summer, to help families with "back to school" shopping.

When the first sales tax holiday was created, many people, including Florida TaxWatch, believed that it would be more of a symbolic gesture than a real economic stimulus. That first sales tax holiday proved to be very popular with both taxpayers and retailers. Over the next three years, the Legislature enacted three more holidays, and its has become even more popular and some very real benefits have become apparent. In fact, other states have enacted such holidays, and a national holiday has even been discussed.

Legislation to enact a fifth consecutive sales tax holiday failed during the 2002 General Session, with a tight budget and talk turning to eliminate exemptions rather than create them. However, with the Legislature back in Special Session, legislation has been introduced again.

At the request of the legislation's sponsors, Florida TaxWatch has reviewed the proposal and concludes that the sales tax holiday is good for taxpayers and the economy alike and should be continued.

The new sales tax holiday would last nine days—from Saturday, July 27 to Sunday, August 4. During this time, clothing with a selling price of \$50 or less and school supplies with a selling price of \$10 or less would be exempt from sales and use taxes. This is expected to cost the state \$28 million and local governments \$5.6 million in lost sales tax collections. These estimates do not include any of the indirect tax collections that may occur from the increased economic activity.

Florida's economy is heavily dependent on consumer spending, and the sales tax holiday has proven to significantly increase spending. Although there is no comprehensive estimate of the economic impact of sales tax holidays, many retailers—both in Florida and other states—report that they experienced significant increases in sales.

There are two important facts to note about the increased sales resulting from the tax holidays: the increases are "true" increases, and they are not confined to exempt items.

By "true" increases, retailers mean that the spike in sales during the holiday do not appear to detract from sales before or after the holiday. This means that consumer spending is truly stimulating sales; it is not simply a case of people delaying or accelerating their purchases to take advantage of the tax-free status. Retailers in Texas, New York, Iowa, Washington, D.C. , Maryland and Georgia have reported huge increases in sales. When a Texas holiday increased sales while sales in neighboring Oklahoma dropped, Oklahoma legislators proposed their own sales tax holiday.

For at least some retailers, this previously slow period has become their third largest sales event of the year-behind only the Thanksgiving and Christmas weekends. The Texas Retailers Association reports that small town retailers say the holiday has "re-created" the back-to-school shopping period.

Increased sales do not appear to be limited to clothing. Sales of non-exempt items also benefit. One large multi-state retailer reported that the Texas holiday led to a 17% increase in sales of non-exempt items. A mall in Des Moines, Iowa reports a mall-wide increase of 45%. The increased traffic benefits all stores in a shopping area, from jewelry and electronics stores to food courts. This means that there are some increased tax collections, not just losses, during this time. In fact, the District of Columbia's city council reports that its holiday resulted in a net increase in sales taxes.

And, of course, consumers benefit. Not only do Floridians save 6% to 7.5% (depending on local option taxes), but most stores promote this holiday heavily and add special sales as well. Add to this "back to school" sales, and consumers can realize some very significant savings.

The sales tax holiday has become a very popular event in Florida. Not only is it a deserved gesture by government to its hardworking taxpayers, it provides them real benefits and has proven to be an effective way to stimulate sales and, therefore, Florida's economy.

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