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*Buzz grows over state tax holidays*

*Tax-free days cost states money but can prod lagging American spending.*

*By Patrik Jonsson*

ATLANTA — The mother-daughter team of Renee and Kristen Turner stuck it to the man this weekend.

A new MacBook, iPhone, and printer in tow, the duo didn't pay a cent of sales tax, saving about \$100. "That's a lot of money right now," says the elder Ms. Turner. The downside? They had to wait in line outside the computer store at Lenox Square Mall for nearly two hours.

Across Georgia, Alabama, the Carolinas, and the handful of other states that held back-to-school tax holidays last weekend, shoppers jostled for pens and pads, stood in line for new computers, and tried on sneakers in droves in what has become the year's second-biggest shopping splurge.

The stakes were higher than usual this year as consumers looked to pick up some value for their inflation-eroded dollars and restless retailers vied to recoup a 0.2 percent dip in consumer spending due to high prices.

"This is probably the biggest year we've ever had for sales tax holidays," says John Heavener, president of the Georgia Retail Association, in Lithonia.

To some, the growing popularity of tax holidays — and the willingness of states to hold them even in the face of dwindling tax revenues — represents a troubling shift in tax policy. Not only are states using a gimmick to manipulate consumer behavior, critics argue, but the resulting revenue losses can also have a destabilizing effect on how states govern.

"At one time the tax system was used to raise revenue and right now it's being used to implement this or that social policy or goal," says economist

**Tax-free shopping: What's on the list?**

Amid lackluster consumer spending, states that have tax holidays are vigorously promoting them this year. Sixteen states and the District of Columbia suspend sales taxes for a few days on everything from school supplies, clothing, and energy-efficient goods. Below is a sampling of the products exempted from taxes, the dollar limit on eligibility, and the year that product was included on the holiday list.

STATE	SOME ITEMS INCLUDED	MAXIMUM COST PER ITEM	1ST YEAR	2008 DATES
Louisiana	hurricane-preparedness items	\$1,500	2008	May 24-25
Missouri	computers	\$3,500	2004	Aug. 1-3
New Mexico	computers	\$1,000	2005	Aug. 1-3
North Carolina	school supplies	\$100	2001	Aug. 1-3
Oklahoma	clothing	\$100	2007	Aug. 1-3
Virginia	energy-efficient products	\$2,500	2006	Oct. 10-13

SOURCE: Federation of Tax Administrators '2008 State Sales Tax Holidays'/Rich Clabaugh-STAFF

Patrick Fleenor at the Tax Foundation, a tax research and public education organization in Washington.

New York held the first back-to-school tax holiday in 1997. Since then the events have grown, kudzu-like, often expanding into neighboring states as legislatures engage in cross-border retail wars to keep their residents from shopping out of state.

With Massachusetts last week adding a mid-August holiday, 16 states plus the District of Columbia will have staged such events this year. Five states, including Georgia, have added special tax-free days on energy-efficient appliances.

**“With regard to sales tax holidays, economists uniformly pan them and elected officials love them,” says Don Boyd, a senior fellow at the Rockefeller Institute of Government, in Albany, N.Y. “They’re not hugely costly, but the impact on the total amount of spending by consumers is virtually indiscernible. No state should expect any boost to the economy from a sales tax holiday.”**

But many retailers hope to capture some of the \$594 each American family is expected to spend this year on back-to-school supplies (including computers) — up from last year’s \$563, according to the National Retail Federation. What’s more, one-fifth of parents say they’ve set aside a portion of this year’s federal stimulus check for back-to-school purchases.

Some retailers report spinoff effects far from the school supplies aisle. In Virginia last year, a billiards table company had its biggest sales weekend on record during the tax holiday.

“This summer has not been a graceful one for retailers, but will [consumers] let go of their purse strings [for the tax holiday]? That’s the \$64,000 question,” says George Peyton of the Retail Merchants Association, in Richmond, Va.

In Georgia, total sales from the holiday were expected to set a new record. The full impact won’t be known until quarterly reports are issued, when retailers and politicians are likely to pore over the results for insights into the American shopper’s mood and mind-set.

From Wal-Mart to Foot Locker, the mind-set last weekend was glee, as consumers anticipated a respite from inflation. “They should do more of these,”

said Edward Underwood, a Chamblee, Ga., debt collector, who saved \$7 on a pair of shoes.

The results have even turned some critics into supporters. Florida Tax Watch, a taxpayers’ group, originally opposed the holiday in Florida, but this year lamented the Florida legislature’s decision to renege on the holiday in the face of a \$6 billion state budget shortfall.

“It’s a tax cut, so it reduces revenue,” says Kurt Wenner, senior research analyst at Florida Tax Watch. “In the short term, that means less money to spend, but in the long term it could ... stimulate the economy.”

But can states afford tax cuts?

Massachusetts’ approval last week of a mid-August holiday was misguided, says Mary Grant, a state representative who voted against the bill. In the Bay State, most of the 5 percent sales tax goes toward mass transit and school construction. The estimated \$15 million revenue loss is simply too big, she says.

“We all have access to sales that were much higher than 5 percent at other points of the year, so I felt we still had our opportunity ... to buy these consumer items” at a discount, she says.

Nebraska state Sen. Bill Avery, who sponsored his state’s tax holiday law, acknowledges that there’s a “psychological element” to the policy.

“Consumers see it as a chance to stick it to the government, and the total revenue impact is basically a wash,” he says. “You get to have your cake and eat it, too.”

Economists generally dislike policies that create “distortionary” spending. Instead of a week-long tax holiday, for example, a 1/52nd reduction in the income tax would generate greater value for both consumers and the economy, says Mr. Fleenor at the Tax Foundation.

Yet the tax holiday has not proved to be as detrimental as many economists had warned, says Bryan Caplan, a George Mason University public-finance expert who this spring backed the idea of a federal gasoline tax holiday.

Despite the artificial stimulus of a tax holiday, he says, “we seem to be doing OK.”