

Sales Tax Holidays Miss the Mark When it Comes to Effective Sales Tax Reform

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Key Findings

- Nineteen states have sales tax holidays on the books in 2024.
- These suspensions combined will cost states and localities over \$1.3 billion in lost revenue this year.
- Sales tax holidays are poorly targeted and too temporary to meaningfully change the regressive nature of a state's tax system.
- Overall, the benefits of sales tax holidays are minimal while their downsides are significant.

Sales taxes are an important revenue source, making up close to half of all state tax revenues.¹ But sales taxes also are inherently regressive because low-income families spend a greater share of their income on goods and services subject to the tax. Lawmakers in many states have enacted “sales tax holidays” to temporarily suspend the tax on purchases of clothing, school supplies, and other items. These temporary exemptions may seem to lessen the regressive impacts of the sales tax, but their benefits are minimal while their downsides are significant—particularly as lawmakers have sought to apply the concept as a substitute for more meaningful, permanent reform or to arbitrarily reward people with specific hobbies or in certain professions.

Nineteen states have sales tax holidays on the books in 2024, just shy of the 20 that existed in 2023.² The combined annual cost to state and local budgets this year is estimated to be over \$1.3 billion.

As pandemic-related economic disruptions appear further and further in the rear-view mirror, lawmakers have begun to face the reality of state budgets no longer buoyed by temporary aid from the federal government. Many states used those temporary surpluses to enact permanent tax cuts.³ While several states are still committed to drastic cuts, this year some policymakers have acknowledged their budgetary constraints and approached important fiscal decisions with a bit more caution.⁴

Some states eliminated or pared back their sales tax holidays this year, while a few others expanded or simply modified them. For example, lawmakers in New Jersey repealed the state’s 10-day school supplies sales tax holiday, which will save almost \$36 million per year. That revenue can now be redirected to more useful things like health care and clean air and water.

Meanwhile, Tennessee will not continue its three-month grocery tax holiday after seeing flattening revenue collections.⁵ Sales tax revenue—including the estimated \$287 million⁶ in forgone revenue from the last grocery tax holiday—is vital for a state like Tennessee, as it is one of nine states lacking a broad-based personal income tax. It relies heavily on regressive sales and excise taxes and its business franchise tax.⁷

On the other end of the spectrum, Ohio legislators created an expanded sales tax holiday to replace their “back-to-school” holiday in years when surplus revenues exceed a \$60 million threshold. Buckeye State lawmakers earmarked a whopping \$750 million to reimburse local governments for lost revenue under the new program—a figure that dwarfs the \$21 million cost of the state’s traditional three-day sales tax holiday.⁸



How Sales Tax Holidays Work

Sales tax holidays are temporary sales tax exemptions, usually applying to a small number of taxable items for a very limited period. They are typically timed to take place in August during the traditional back-to-school shopping season and usually offer breaks on school-related items such as clothing, school supplies, and computers. A few states exempt all taxable goods during the suspension. Most sales tax holidays last only two or three days, and almost all apply only to items below some specified price (for example, clothing items priced over \$100 are generally not exempted).

In addition to traditional back-to-school weekend holidays, some states now have longer, broader exemptions, with varying themes. Holidays for energy-efficient appliances and storm preparation materials are becoming increasingly common, for example. In 2024, there are also holidays being held for hunting season in Louisiana, recreational activities in Florida, and for National Guard members and their families in Nevada.

History of Sales Tax Holidays

The notion of such a holiday was first introduced in 1980 when Ohio and Michigan opted to not tax the sale of automobiles for a period of time.⁹ New York experimented with the current concept of sales tax holidays in 1996 but has since abandoned the policy. More than 20 states have enacted legislation at some point to temporarily suspend sales taxes, and proposals to extend the concept to more states and more types of purchases appear every year.

Many states have repealed or temporarily ended sales tax holidays when facing significant revenue gaps. For example, lawmakers in Florida, Georgia, Maryland, Massachusetts, and the District of Columbia all canceled holidays during the height of the Great Recession; and although most reinstated them afterward, Georgia and the District of Columbia's holidays have not been revived. Louisiana, which once held three separate exemptions for back-to-school shopping, hunting season, and hurricane preparedness, started paring them back due to revenue shortfalls in 2016 and only recently revived their holiday for hunting season. Holidays in Illinois, New York, North Carolina, Vermont, and Wisconsin were also either short-lived or repealed.



Problems with Sales Tax Holidays

Policymakers tout sales tax holidays as a way for families to save money while shopping for “essential” goods. On the surface, this sounds reasonable. However, a two- to three-day sales-tax-free shopping spree for selected items does nothing to reduce taxes for low- and moderate-income taxpayers during the other 362 days of the year. Sales taxes are inherently regressive. In the long run, sales tax holidays leave a regressive tax system unchanged, and the benefits of these holidays for working families are minimal. These temporary exemptions also fall short because they are poorly targeted, costly, can easily be exploited, and create administrative difficulties.

Sales Tax Holidays Are Poorly Targeted

Since wealthier taxpayers also benefit from sales tax holidays, they offer less “bang for the buck” from a fairness perspective than more targeted tax breaks such as low-income sales tax credits¹⁰, state earned income tax credits¹¹ or child tax credits.¹²

Wealthier taxpayers are often best positioned to benefit from a temporary exemption since they have more flexibility to shift the timing of their purchases to take advantage of the tax break—an option that isn’t available to families living paycheck to paycheck. Many low-income taxpayers spend most or all their income just getting by, which means that they have less disposable income than wealthier taxpayers to spend when a tax-free period arrives. One study found households that earn more than \$30,000 were likely to shift the timing of clothing purchases to coincide with a sales tax suspension, but households earning less than \$30,000 were not.¹³ This is more pronounced during recessions and economic downturns because low-income families or those who lose jobs see a much bigger hit to their incomes and generally recover more slowly. For families whose incomes are reduced or volatile for several years coming out of a recession, a temporary sales tax suspension doesn’t relieve the monthly challenges associated with a regressive tax system that depends on a sales tax.

Sales tax holidays are also not limited to state residents but instead extend to anybody who happens to be within the state’s borders at the time of the tax suspension, including tourists and people who live close to the border.

Lastly, though the holidays are often marketed as boons to local businesses, nearly all (New Mexico’s “Small Business Saturday” is an exception) apply to online purchases—even those shipped from other states—giving no advantage to locally owned businesses.



Sales Tax Holidays Reduce Revenue

In 2024, sales tax holidays will cost states and localities over \$1.3 billion in lost revenue, down from an estimated \$1.6 billion in 2023.¹⁴ This lost revenue will ultimately have to be made up elsewhere, either through painful spending cuts or increasing other taxes. Cities and counties—which often have few revenue options and must rely on sales taxes to fund important priorities like roads, parks and police and fire protection¹⁵—rarely have a choice in the matter of sales tax holidays. Only Alabama, Mississippi, and Missouri allow localities to opt out of them.

Moreover, now that most online sales are subject to state and local sales taxes, the cost of these temporary suspensions has grown. Online purchases, which are tax-exempt under all but one of these holidays, are a large and growing share of retail sales, and consumers can more easily time online purchases than brick-and-mortar purchases to coincide with a tax-free period.

Lawmakers' recent experiments with longer and broader tax suspensions add to this growing price tag, heightening the need for a better understanding of why sales tax holidays are ineffective and how states can do more with less through more targeted policies.

Some Retailers Exploit Sales Tax Holidays

Retailers can also take advantage of the shift in the timing of consumer purchases by increasing their prices or watering down their sales promotions during the tax holiday. The influx of shoppers gives them economic incentive to do so, and the evidence suggests that they often do. One study of retailers' behavior in Florida, for example, found that up to 20 percent of the price cut consumers thought they were receiving from the state's sales tax holiday was reclaimed by retailers.¹⁶

Sales Tax Holidays Create Administrative Difficulties

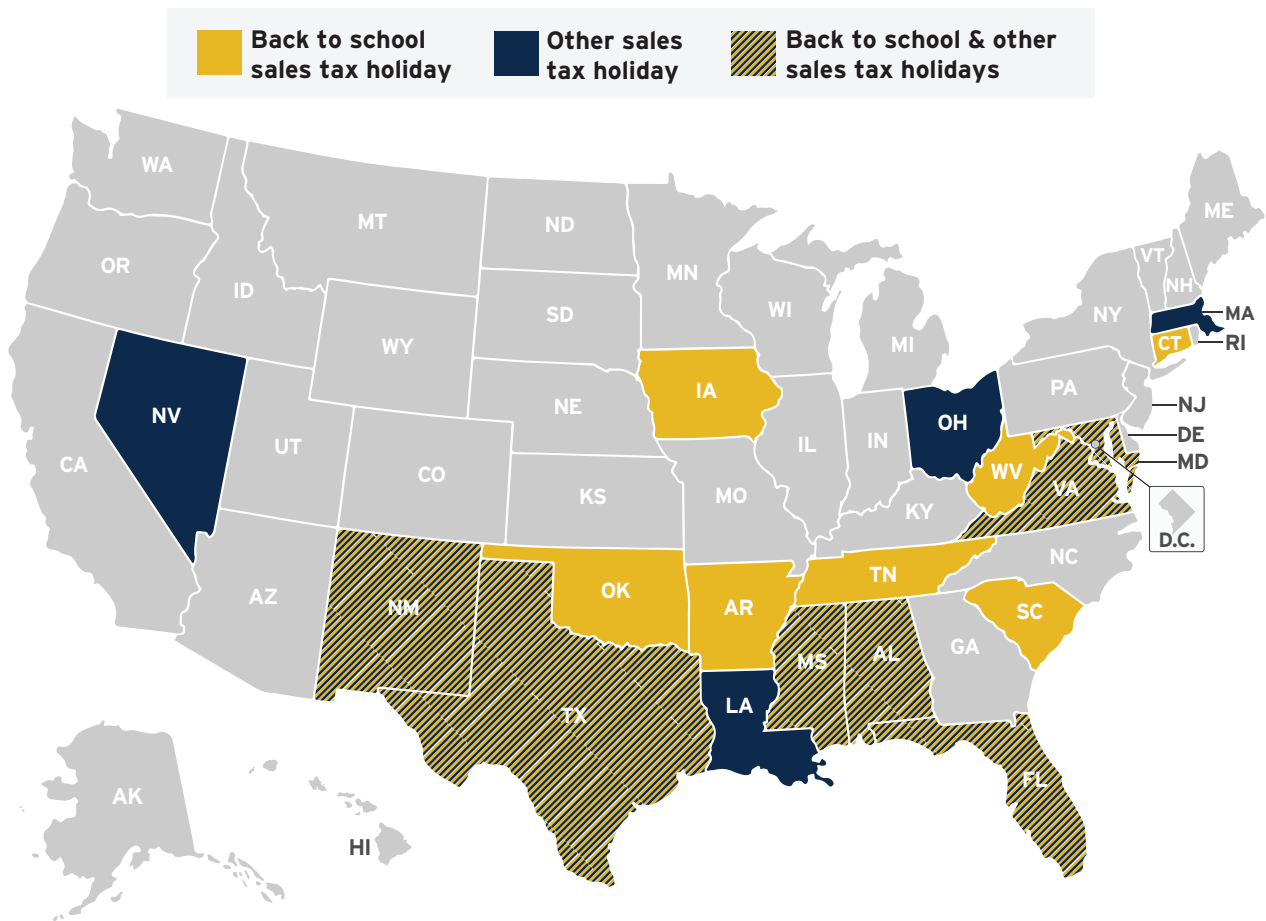
Sales tax holidays create administrative difficulties for state and local governments and for retailers who must collect the tax. For example, exempting groceries requires a collection of well-defined government regulations to police the border between non-taxable groceries and taxable snack food – and only for a certain defined period of time. A temporary exemption for clothing (or for any other back-to-school item) requires retailers and tax administrators to wade through a similar number of complex administrative changes for an exemption that lasts only a few days. Further complexity can arise in states with local sales taxes when some localities opt not to participate in the holiday and consumers unexpectedly end up paying local sales taxes on their purchases.



Conclusion

Sales tax holidays are poorly targeted and too temporary to meaningfully change the regressive nature of a state's tax system. Lawmakers must understand that they cannot resolve the unfairness of sales taxes simply by offering a short break from paying these taxes. If the long-term consequence of sales tax holidays is a higher sales tax rate, low-income taxpayers may ultimately be worse off because of these policies. Policymakers seeking to achieve greater tax fairness would do better to provide a permanent refundable low-income sales tax credit or prioritize state-level child tax credits or earned income tax credits which would do more to help families make ends meet and to offset the impact of the sales tax on low- and moderate-income taxpayers.

States With Sales Tax Holidays, 2024



"Other sales tax holiday" includes energy/water efficiency, severe weather preparedness, small business, gas tax and other sales tax holidays.

In Ohio, a conventional back-to-school sales tax holiday will be held in years where surplus revenue does not reach at least \$60 million and trigger an expanded tax holiday.

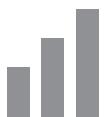
2024 Sales Tax Holidays

State	Back to School	Energy and Water Efficiency	Severe Weather Preparedness	Other	
Alabama	July 19-21 Clothing <\$100 Computers <\$750 School supplies <\$50 Books <\$30		February 23-25 Assorted items <\$60 per item Generators <\$1,000		
Arkansas	August 3-4 School supplies (no \$ limit) Electronic devices (no \$ limit) Clothing <\$100 Accessories & equipment <\$50				
Connecticut	August 18-24 Clothing <\$100				
Florida	July 29 - August 11 School supplies <\$50 Clothing <\$100 Learning aids <\$30 Computers <\$1,500		June 1-14 August 24 - September 6 Generators <\$3,000 Radios, tarps, etc. <\$100 Smoke detectors/fire prevention <\$70 Coolers & power banks <\$60 Batteries, radios, & fuel tanks <\$50 Portable lights, pet beds <\$40 Cleaning supplies <\$30 Cat litter <\$25 Reusable ice, can openers, & various pet supplies <\$20	Recreation July 2024 Admissions to events Hunting, fishing, boating, camping, sports, pool equipment, and outdoors equipment (varying price thresholds)	Tools & Equipment September 1-7 Tools, work equipment and materials, and apparel (varying price thresholds)
Iowa	August 2-3 Clothing <\$100				
Louisiana				Firearms September 6-8 Hunting and firearm gear and supplies (no \$ limit)	
Maryland	August 11-17 Clothing <\$100 Backpacks <\$40	February 17-19 Energy Star items and solar water heaters (no \$ limit)			
Massachusetts				August 10-11 Most goods for personal use except vehicles <\$2,500	
Mississippi	July 12-14 School supplies <\$100 Clothing <\$100			Hunting Season August 30 - September 1 Guns and certain hunting supplies (no \$ limit)	
Missouri	August 2-4 School supplies <\$50 Clothing <\$100 Computers & peripherals <\$1,500 Software <\$350 Graphing calculators <\$150	April 19-25 Certain Energy Star items <\$1,500			



State	Back to School	Energy and Water Efficiency	Severe Weather Preparedness	Other
Nevada				October 25-27 Purchases made by National Guard members and families (no \$ limit)
New Mexico	August 2-4 School supplies <\$30 Clothing <\$100 Computers <\$1,000 Computer equipment <\$500			Small Businesses November 30 Specified items <\$500 from businesses with 10 or fewer employees
Ohio	Sales Tax Holiday Under Continuing Law¹ School supplies <\$20 Instructional material <\$20 Clothing <\$75			Expanded Sales Tax Holiday July 30 - August 8 Most goods for personal use except vehicles, alcoholic beverages, tobacco and vapor products, or items containing marijuana < \$500
Oklahoma	August 2-4 Clothing <\$100			
South Carolina	August 2-4 School supplies Clothing & linens Computers & accessories (no \$ limit)			
Tennessee	July 26-28 School supplies <\$100 Clothing <\$100 Computers <\$1,500			
Texas	August 9-11 School supplies <\$100 Clothing <\$100 Backpacks <\$100	May 25-27 Energy Star air conditioners <\$6,000 Energy Star refrigerators <\$2,000 Other Energy Star items (no \$ limit) WaterSense & similar items (no \$ limit)	April 27-29 Batteries, flashlights, etc. <\$75 Hurricane shutters & ladders <\$300 Generators <\$3,000	
Virginia	August 2-4 School supplies <\$20 Clothing <\$100	August 2-4 Qualifying Energy Star or WaterSense items <\$2,500	August 2-4 Various related products <\$60 Gas-powered chainsaws <\$350 Portable generators <\$1,000	
West Virginia	August 2-5 School supplies <\$50 Instructional materials <\$20 Clothing <\$125 Computers <\$500 Sports Equipment <\$150			

¹ A conventional back-to-school sales tax holiday, as outlined in continuing law, will be held in years where surplus revenue does not reach at least \$60 million and trigger an expanded tax holiday.



Endnotes

1. U.S. Census Bureau, 2021 Annual Survey of State Government Tax Collections.
2. The previous version of this brief indicates that there were 19 sales tax holidays in 2023 when there were 20. That is because Virginia lawmakers did not reauthorize their sales tax holiday until well after the brief was published.
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4. Davis, Aidan (2024), Five Tax Takeaways from 2024 State Legislative Sessions. Institute on Taxation and Economic Policy. <https://itep.org/tax-takeaways-2024-state-legislative-sessions/>
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13. Marwell, Nathan and Leslie McGranahan (2010), The Effect of Sales Tax Holidays on Household Consumption Patterns. Federal Reserve Bank of Chicago.
14. ITEP survey of cost estimates from state tax expenditure reports, fiscal notes, revenue departments, and academic studies.
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16. Harper, R. K., Hawkins, R. R., Martin, G. S. and Sjolander, R. (2003), Price Effects around a Sales Tax Holiday: An Exploratory Study. Public Budgeting & Finance, 23: 108-113.

