



ANALYSIS OF HB 5 – SALES TAX HOLIDAY

HB 5 establishes a four day sales tax holiday from 12:01 A.M. on July 28, 2005 to 12:00 Midnight on July 31, 2005. The sales tax holiday in Georgia was first implemented in 2003. A total of twelve states implemented a sales tax holidays in 2004.

Exempted items include:

- Sales of clothes and footwear priced at no more than \$100 per article;
- Up to \$1,500 of sales transactions involving personal computers, peripheral devices, computer-related accessories, and non-recreational software; and
- Sales of school supplies and books on approved lists for pre-kindergarten through twelfth grade priced at no more than \$20 per unit.

The Georgia State University Fiscal Research Center estimates the FY 2006 total revenue impact for the State to be \$10.38 million. For local jurisdictions the estimated revenue impact is \$6.5 million.

Sales Tax Holiday Background

The sales tax holiday has been touted as both a vehicle to stimulate retail businesses and as a mechanism to give tax relief to working Georgians.

In regards to stimulating retail business the research has been mixed. Research shows that a sales tax holiday affects the timing of clothing purchases, but it has little effect on total household purchases for the year. An analysis of the effect of the first New York State sales tax holiday showed that clothing sales during the holiday week were considerably higher, but clothing sales for the quarter that contained the holiday showed only a modest increase equal to normal growth. Research has shown that border shopping is influenced by sales tax rates, and that tax holidays probably benefit shopping areas near state boundaries.

The benefits to consumers are even more problematic. Research suggests that a typical family spends approximately \$250 on back to school clothes resulting in a tax savings of \$17.50. Those families that purchase a \$1,500 computer will save \$105. In addition to all income groups benefiting from the sales tax holiday, not just lower-income Georgians, studies have shown that as much as 20 percent of what consumers save due to the sales tax holiday is lost due to higher prices. A far more efficient way to give tax relief to working Georgians would involve adjustments to the state income tax such as an increase in the tax credit for low income taxpayers.

Conclusion

In that the economic and consumer benefits are problematic, it is important to consider the alternative use of the \$10.4 million sales tax holiday expenditure. Among other things, the state could have used these forfeited funds to:

- Hire 250 teachers;
- to replace most of the cuts to Peachcare that resulted in over 45,000 children losing health insurance for at least 3 months;
- Fill 120 vacant state trooper positions,
- Adequately fund “Level of Care” to enable the state to purchase mental health services for those children within the child protective services system with the most comprehensive and expensive mental health needs; and
- Eliminate the Community Care Services Program (CCSP) waiting list.

At a minimum the state needs to fully evaluate the effect of the Georgia sales tax holiday on the overall economy and on consumers so that a more informed policy decision can be made by the General Assembly during the 2006 legislative session.