

This Weekend's Sales-Tax Holiday – Fool's Gold?

Beginning Friday and continuing throughout the weekend, you won't be charged sales tax when you buy clothes or shoes that cost less than \$100. Dazzled by the opportunity to avoid paying taxes, long lines of people will converge on malls across Texas. But will you really save any money this weekend?

The idea behind the sales-tax holiday is a good one. The holiday is intended to give a break to those families who are usually hit hardest by the sales tax.

Over the course of the year, the sales tax takes a much bigger bite out of the income from lower- and middle-class families than it does from higher-income families. Most working families spend all that they have (and sometimes more, by borrowing) to support their families, while wealthier families have money to save or to spend on services that aren't taxed, like lawyers, accountants, and stockbrokers.

While it sounds good in theory, the problem is that the sales-tax holiday ends up benefiting higher-income families who can afford to shop in bulk. Families with enough income to pay for a school year's worth of clothes do better than families who can buy just one outfit at a time. In fact, one study showed that more than 40% of the total tax savings goes to families with incomes over \$70,000.

Not only that, but retailers know that eager buyers will be breaking down their doors this weekend, so they don't have to offer sales to attract customers. By waiting another weekend for a sale that offers 20% or even 10% off your purchases, you would save more money than if you bought non-sale items on the sales-tax holiday weekend. Many people, lured by the thrill of tax-free shopping, don't realize this.

In addition, the sales-tax holiday adds extra administrative costs for both retailers and tax collectors. In particular, cash registers have to be re-programmed to take into account the three-day exemptions. For example, retailers exempt belts, but tax belt buckles. They exempt cowboy and hiking boots, but tax rubber work boots, waders, and ski boots. And they exempt football jerseys, but tax football pants. The list goes on and on. This is hardly the most efficient way to give a tax break.

Lastly, the holiday isn't free. This weekend the state will lose out on \$38.5 million in revenue—more money than is currently dedicated from the sales tax to our neglected state parks.

Many states with similar tax holidays are required to re-authorize the holiday every year, so that they can adjust for changing budget conditions. Texas' holiday, on the other hand, is a permanent feature in the Tax Code. We need to change our code so that when our budget is facing a shortfall—as it will be next year—we can hold off on declaring an expensive holiday.

While the legislature should be commended for wanting to ease the tax burden on working families, there are other ways to help without taking money away from important public services.

Last year the Texas Senate passed one good plan, which, if enacted, would have given a sales-tax break to families receiving food stamps or other benefits through the Lone Star Card. Even better would be a serious look at a state personal income tax, which would spread the cost of services more fairly, according to each family's ability to pay.

Maybe you can come up with an even better idea while you're waiting in line this weekend.

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