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Sales & Use Tax Holiday for Back-To-School Items

HB14-1094

Testimony to the House Finance Committee

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Thank you for the opportunity to address this committee. My name is George Awuor and I am a policy analyst with the Bell Policy Center. The Bell is a non-partisan, non-profit research and policy organization founded on progressive values and dedicated to expanding opportunity for all Coloradans.

I am here to oppose House Bill 14-1094, which would create a three-day sales tax holiday for any school supply with a sales price not exceeding \$50 and any article of clothing with a sales price not exceeding \$75. The exceptions would include online purchase and catalog orders made during the sales tax holiday.

There is no doubt that policy-makers who support this bill have good intentions and want to provide financial relief to Coloradans. However, research shows sales tax holidays are not good tax policy and rarely succeed in providing tax savings or stimulating retail sales and the economy at large. Retailers may gain increases in sales during the tax holiday, but data shows overall sales are rarely impacted by these tax holidays.¹

What tax-holiday laws actually do is artificially influence the timing of the consumer purchases. Typically, consumers shift their spending on purchases that would have happened anyway, which results in a reduction in sales in days leading up and right after the holidays.

This sales-tax holiday does not specifically target Colorado students and families who need help the most. It would be available to all families – those with financial need and those without. While it is argued that a back-to-school sales tax holiday will help parents pay for school supplies, it will also result in fewer tax dollars being available to invest in schools. In other words, the sales tax holiday to help parents pay for school supplies will come partly at the expense of school funding. We know that Washington, D.C., for example, cancelled its back-to-school sales tax holiday after having it for eight years because it was losing over half a million dollars every year in revenue.²

Economists from both the right and the left agree that there is little evidence to show that tax holidays increase economic activity or create jobs.*

Thank you for the opportunity to testify before this committee.

¹ 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.

² Robyn, M., Cohen, M. and Henchman, J. (2011) Sales Tax Holidays: Politically Expedient but Poor Tax Policy Tax Foundation Special Report 193

* Center on Budget and Policy Priorities and The Tax Foundation both oppose sales tax holidays.