

Testimony
to the
Senate Committee on Assessment and Taxation
Kansas Senate
Thursday, January 19, 2023
by
Richard Harris
business & technology consultant, & licensed educator
Wichita, Kansas
in support of
Senate Bill 21
*“Providing an annual sales tax holiday
for sales of certain school supplies”*
and
opposing
Senate Bill 29
*“Providing a back-to-school sales tax holiday
for sales of school supplies, computers and clothing.”*

**Good morning Madame Chair, Senator Caryn Tyson,
Vice Chair Senator Virgil Peck, Ranking Senator Tom Holland,
and members of the Assessment and Taxation Committee.**

To be brief, before a full explanation, **I support SB 21 (with a specific amendment, extending its duration to 14 or 15 days)**, if it remains otherwise intact, or is even more narrowly focused on purely educational necessities, and strictly on education consumers.

And I firmly oppose SB 29, as unfocused, excessive, and quite counterproductive.

The Problem:

School supplies are a hardship on many students and parents, across the state of Kansas

Failure to acquire the necessary supplies causes students to arrive at school unprepared for class. This has several direct negative outcomes:

- Children are embarrassed, and withdraw from active participation in class and student life, undermining their education and social development.
- Teacher/Child relations are strained

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- Parent/Child relations are strained
- Parent/Teacher relations are strained
- Teachers must waste great amounts of time and/or resources...
 - ◆ ...providing the missing supplies, out of their own pockets, OR...
 - ◆ ...providing a limited supply of substitute supplies which must be shared among the deprived students – resulting in a slowed class, AND...
 - ◆ ...providing individual remedial attention to the deprived students, detracting from the rest of the class.
- Pressure on children, at an early age, to steal – just to meet school expectations.
- Students who are deprived have difficulty keeping up with the rest of the class, further aggravating the withdrawal that results in a permanent psychological disconnect from education – ultimately resulting in...
 - ◆ high failure rates,
 - ◆ social alienation,
 - ◆ discipline problems,
 - ◆ drug use, and
 - ◆ early dropouts.

Yes, all that, ultimately, from simply arriving at school without needed supplies.

With state and local sales taxes, combined, commonly exceeding 6-11% across the state, we're talking about many Kansas students (over 100,000 in poverty, according to AECF and Kansas Action for Children) arriving at school, often lacking a comparable percent of their needed school supplies.

This isn't simply a matter of arriving with 9 pencils instead of 10. It often means arriving without a nap mat for kindergarten, or the scissors required for an art class, or the sheet music for band class, or the shorts (and jock strap or sports bra) for phys-ed, or the calculator for algebra, or necessary tools for a trade school class, or a costly textbook or workbook for a college course.

These shortages can literally force students out of some classes – a humiliating experience that turns them against education, altogether.

The Business Case:

As a business consultant, I'm acutely aware how local businesses struggle to find adequately educated applicants. A shortage of them is strangling Kansas business today.

Education is THE core infrastructure development that leads to a prosperous society.

Nothing else – not business tax breaks, not deregulation, not infrastructure construction, not law enforcement or corrections, not supply chain accommodations – NOTHING else – comes close to the powerful, positive economic impact of an adequately educated workforce.

An educated workforce is THE engine that drives all real growth, and especially in a technology-

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dependent era when knowledge -- not a permissive environment, nor material resources, nor even cash, but *AN EDUCATED WORKFORCE* – is the ultimate decisive capital for economic growth and leadership.

So, as both a matter of humane policy and sound economic policy, it is essential that all Kansas students arrive at school fully equipped for the work of learning.

Meeting the needs of working-class parents:

Since most Kansas school children (especially the youngest, in their most formative years) come from the homes of the working class who struggle paycheck-to-paycheck, it is often challenging for their parents, at the moment school starts, to provide fully all the supplies required by their children's school.

I'm not talking about fancy clothes and footwear, nor high-tech toys and tools. I'm talking about the basics: pens and pencils, paper and binders, art/music/phys-ed supplies, basic math and science tools, textbooks and workbooks, and other core school supply requirements.

Senate Bill 21 does a notable job, in most respects, of providing *some* relief to parents struggling to meet these basic needs.

SB 21: The critical flaw – timing:

However, SB 21 clearly needs one key amendment: **The period for the school supply tax relief must extend over a sufficient number of days to ensure that those who need it most – parents living paycheck-to-paycheck – actually have a paycheck to spend on school supplies during the tax-relief period.**

Because most working-class parents are paid bi-weekly (once every 14 days) or semi-monthly (once every 15 days), this means that Kansas would need to follow Florida's 2022 example, and extend the period of relief for 14-15 days.

Longer – not broader – tax breaks:

However, because of the needed prolonged period of resulting state tax losses, it is essential that Kansas *not* repeat Florida's costly mistake – resulting from the inclusion of *other* items, such as clothing and computers – which ensured costly, widespread abuse of the sales tax holiday, ultimately leading to Florida's repeal of the entire holiday for 2023.

SB 21 wisely keeps the focus on **necessary essential basic school supplies**, within a reasonable **fixed dollar limit** – not the broad range of unlimited-price inclusions proposed in rival bill SB 29. It's important to contrast the modest, conservative SB 21 with the very liberal rival bill, SB 29, which promotes a far less prudent approach.

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SB 29's flaws:

By comparison to SB 21, rival SB 29 is an invitation to a disastrous, pervasive, costly abuse of the school-supply tax-holiday, as the general public, even businesses, are encouraged to splurge on items not exclusively essential to school attendance and performance – unlimited tax breaks on nearly all clothing and computer products – for *all* consumers and enterprises.

SB 29 flaw 1: Clothing & related inclusions

In SB 29, Section 1, (b) (1), broadly, recklessly states:

“Clothing” means all human wearing apparel suitable for general use.”

With this vague, all-inclusive definition, **students and parents** are implicitly encouraged to splurge on exotic clothing and footwear far beyond what is necessary for education.

And **the broader general public**, too, is implicitly encouraged to splurge on needless and excessive clothing expenditures, simultaneously, at the expense of the state budget.

Moreover, most parents of Kansas school-age children live paycheck-to-paycheck, with little or no reserve to allow for sizable clothing purchases during the narrow window of the proposed tax holiday. They're struggling to just barely afford actual *school supplies*.

So the real advantage in momentary tax-free clothing sales shifts almost entirely to businesses and the more-affluent (often childless) members of the general public (who have the cash reserves to *schedule* extensive clothing purchases for the tax holiday).

This means, essentially, subsidizing those who do not need a subsidy – many of whom don't even have children – while the legislature pretends, rather falsely, to be helping those parents who **do** need help.

And SB 29 benefits specialty retailers (clothing and shoe stores), and major-chain department and dollar stores – who delight in untaxed, wide-open-market sales to all. Locally owned general and grocery stores, with fewer resources to manage the complexities of the tax holiday, suffer by comparison.

Moreover, this would generate long, slow lines at cash registers, as harried clerks struggle to determine whether or not individual checked items exactly meet the tax exemption specification – while abusive consumers argue with them over niggling details – holding up the whole business for everyone else.

If **any** clothing is to be included in any sales-tax holiday (and I strongly recommend none), it should **only** be clothing **specifically listed in a school district's official published list of required school clothing**, with reasonable **price limits** set for each item.

Any other use simply guarantees massive abuse and waste of the state's funds, mostly for frivolous purposes simply unrelated to effective education of Kansas children.

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SB 29 flaw 2: Computers & related inclusions

Even worse, SB 29 invites unlimited spending on computers and related products – ensuring that **everyone** – not just school students – gets a break on buying a new fancy gadget, and lots of accessories.

In fact, speaking as a business consultant, and former corporate computer coordinator, I note that back-to-school shopping happens at about the same time as the annual business cycle ramps back up from summer doldrums, and businesses become more profitable and more prone to spend on capital assets -- notably computers and computer supplies.

Under SB 29, the State would be subsidizing *business* expenses at a time when businesses are least in need of help (despite the eternal Chamber of Commerce whine that “business *always* needs help”). And it would be needlessly promoting these purchases when businesses (especially those on a July-June fiscal budget) are most inclined to spend on computers, anyway.

With businesses, and the more-affluent members of the general public, (who have the cash reserves to *time* their computer purchases to take advantage of the tax holiday), this will create a massive amount of big-consumer competition for such products, creating shortages and driving prices on them higher – firing up inflation, and undoing, even *reversing*, the very benefit ostensibly intended for students and their parents.

The only real beneficiaries of a tax holiday on computers and related products will be the **sellers**, and the **affluent or business buyers – NOT the average education consumer**. A computer tax-break will backfire on the intended beneficiaries.

SB 29 flaw 3: No dollar limit

SB 29's apparent failure to include **any** price limit, on **anything** exempted, is a reckless invitation to massive abuse of the sales tax holiday, for state-subsidized consumption of items far beyond anything excusable as essential educational supplies.

In fact, it's a tax holiday for the **rich**, inviting them to splurge, tax-free, on a wide range of items for themselves.

It's a tax holiday for **businesses**, encouraging them to dodge sales taxes for an **unlimited** amount of a wide range of capital assets (mainly computers and related products) and office supplies.

The cumulative effect of the resulting SB 29 tax holiday's broad over-spending would rob the state coffers, *primarily* for the benefit of those who have no need to reach their hands into the public trough.

And the transient glut of consumption that would result would inevitably drive up prices on those items intended for school use – negating any real benefit from the tax holiday – *feeding*, rather than fighting, *inflation*.

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Independent Expert Research:

These are not my opinions alone. In 2012, the **Kansas Association of Counties** argued against a proposed sales tax holiday then, and offered as supporting evidence a detailed analysis by the *conservative* think tank, **The Tax Foundation** – which noted that sales tax holidays tend to drain government coffers chiefly for the benefit of affluent consumers, while their narrow timing excludes those most in need of relief.

The Tax Foundation continues to post that research on their *conservative* website, for all to see. At the same time, the *liberal* **ITEP (Institute for Tax and Economic Policy)** concurs, with essentially the same argument.

For a more neutral analysis, the **U.S. Federal Reserve Bank of Chicago** (the “Chicago Fed”) produced *two* detailed working papers analyzing the impact of sales tax holidays, and clearly found the same results.

There appears to be no solid research out there that suggests otherwise.

(In the “**References**” section following my signature, I list the web addresses for each of these documents, with representative excerpts from each.)

Why Pass SB 21 ?

Realistically, voters expect you to do *something* to mitigate their struggles to provide essentials for their children, especially following the recent inflationary jump. A very carefully crafted, tightly focused, sales tax holiday *exclusively* for **mandatory school supplies** – while economically inefficient – does offer *some* clearly definable relief.

But it must be crafted responsibly, and conservatively, to avoid broad misapplication and abuse, at public expense. **It should only be for mandatory school supplies, and only for students and their parents.**

And it must be timed, over a sufficiently long period, so that those most in need of tax relief are actually able to avail themselves of it.

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Amend & Pass SB 21, CAREFULLY:

With these facts in mind, **I urge the amendment of SB 21 to cover a period of 14-15 days**, and – thus amended, and **with no other amendments** – to be passed by this committee, with clear language expressing that it shall not be for any other purpose.

This precision sales-tax-holiday approach, alone, might provide meaningful tax relief to help ensure that **all** Kansas students arrive adequately equipped, confident that they are prepared, and ready to learn, on Day One, at the start of school this Fall.

Respectfully,

Richard Harris
RH&A, Business & Technical Consulting (www.Harris1.net)
3031 W. Pawnee, Suite 200
Wichita, Kansas 67213

*NOTE: I have no clients specifically involved with this issue,
and have no known conflicts of interest.*

Certified Teacher - Kansas Board of Education
Former Teacher, Wichita Public Schools, USD 259
Former Instructor / Course Developer, Wichita Area Technical College (WSU Tech)
Former Member, Curriculum Committee, Wichita State University
Former Member, National Panel of Consumer Arbitrators, Better Business Bureau
Former Secretary, Employment, Development & Housing Committee,
Four-Year Planning Task Force, City of Wichita
Former Member, Wichita Manufacturers Association
Former Member, World Trade Council of Wichita

SOURCE REFERENCES FOLLOW:

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REFERENCES:

SB 21: http://www.kslegislature.org/li/b2023_24/measures/documents/sb21_00_0000.pdf

SB 29: http://www.kslegislature.org/li/b2023_24/measures/documents/sb29_00_0000.pdf

.....
Federation of Tax Administrators (FTA):

2022 Sales Tax Holidays (nationwide)
<https://www.taxadmin.org/2022-sales-tax-holiday>

2023 Sales Tax Holidays (nationwide)
<https://www.taxadmin.org/2023-sales-tax-holiday>

.....
Sales Tax Institute:

State Sales Tax Rates (nationwide, including local taxes)
<https://www.salestaxinstitute.com/resources/rates>

.....
"Kansas ranks 18th nationally in annual report measuring well-being of children"

June 21, 2021, *Kansas Reflector*

<https://kansasreflector.com/2021/06/21/kansas-ranks-18th-nationally-in-annual-report-measuring-well-being-of-children/>

...in which **Kansas Action for Children & AECF *Kids Count Data Book*** reported:

“The [Annie E. Casey Foundation annual] report showed Kansas improved during the past decade in a majority of subcategories within those four fields, including lowering the percentage of children in poverty from 18% to 15%. That left **101,000 children living below the federal poverty line in Kansas**. ... The percentage of children living in high-poverty areas fell from 8% in 2012 to 5% in 2019, but that **still accounted for 37,000 kids.**”

.....
Kansas Statistical Abstract - Enhanced Online Edition
Institute for Policy & Social Research, University of Kansas
Section 8: Education

<https://ipsr.ku.edu/ksdata/ksah/education/>

Estimates of Poverty for 2020, Kansas School Districts, by County

<https://ipsr.ku.edu/ksdata/ksah/education/6ed7.pdf>

or as Excel spreadsheet:

<https://ipsr.ku.edu/ksdata/ksah/education/6ed7.xls>

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.....
Kansas Association of Counties,

Testimony concerning House Bill 2287 – Sales Tax Holiday
to the Kansas House Committee on Taxation

January 25, 2012

http://www.kslegislature.org/li_2012/b2011_12/committees/misc/ctte_h_tax_1_20120125_05_other.pdf

EXCERPT:

“The typical purpose of a sales-tax holiday is to provide a break to families preparing for the return to school. ...**there are alternative methods** to achieve the same purpose without adding an unpredictable element to state and local budgets. **The state can achieve a direct benefit to families – particularly those in need – with a low-income sales-tax credit or refund.** ... With these considerations, the Kansas Association of Counties opposes HB 2287...”

with attached “***Special Report***”

from the conservative **Tax Foundation:**

Sales Tax Holidays: Politically Expedient but Poor Tax Policy

July 2011

also republished and updated online, 2017, at:

<https://taxfoundation.org/sales-tax-holidays-2017/>

EXCERPT:

“**Some consumers may be unable to shop during the sales tax holiday because they’re working, are out of town, or are between paychecks.** Presumably they are no less deserving of a tax break than consumers who can shop during the holiday, but the nature of the timing leaves them out.”

.....
The Tax Foundation (conservative)

Their updated analysis:

2022 Sales Tax Holidays:

Bad Policy Any Year, But Especially in Response to High Inflation

August 2, 2022

<https://taxfoundation.org/publications/sales-tax-holidays/>

EXCERPT:

- ◆ “Seventeen states will hold a **sales tax holiday** in 2022, down from a peak of 19 in 2010 and unchanged from last year.
- ◆ “Sales tax holidays do not promote economic growth or significantly increase consumer

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purchases; the evidence (including a 2017 study by Federal Reserve researchers) shows that they simply shift the timing of purchases.

- ◆ “Sales tax holidays are an inefficient response to inflation that encourage spending to be concentrated in a limited window at a time when supply chains are already strained.”
- ◆ “Sales tax holidays create complexities for tax code compliance, efficient labor allocation, and inventory management. However, free advertising for what is effectively a 4 to 7 percent discount leads many larger businesses to lobby for the holidays.”
- ◆ “Most sales tax holidays involve politicians picking products and industries to favor with exemptions, arbitrarily discriminating among products and across time, and distorting consumer decisions.”
- ◆ “While sales taxes are somewhat regressive, this does not make sales tax holidays effective for providing relief to low-income individuals. To give small tax savings to those with lower incomes, holidays give large savings to higher-income groups as well.”
- ◆ “Such political gimmicks distract from genuine, permanent tax relief. If a state must offer a “holiday” from its tax system, it is an implicit recognition that the tax system is uncompetitive. If policymakers want to save money for consumers, they should cut the sales tax rate year-round.”

ITEP: The Institute on Taxation & Economic Policy (liberal)

Sales Tax Holidays:

An Ineffective Alternative to Real Sales Tax Reform

July 2019

<https://leg.mt.gov/content/Committees/Interim/2019-2020/Revenue/Meetings/July-2020/HJ-35/ITEP-Sales-Tax-Holidays-Brief-2019.pdf>

EXCERPT:

“PROBLEMS WITH SALES TAX HOLIDAYS:

“Policy makers tout sales tax holidays as a way for families to save money. On the surface, this sounds good.

“However, a two- to three- day sales tax holiday 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.”

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"Sales tax holidays also fall short because **they are poorly targeted, cost revenue, can easily be exploited, and create administrative difficulties.**"

[The text continues with detailed breakdown of these problems...]

.....
Federal Reserve Bank of Chicago:

- WP 2010-06

The Effect of Sales Tax Holidays on Household Consumption Patterns

July 27, 2010 (preliminary & incomplete)

<https://www.chicagofed.org/publications/working-papers/2010/wp-06>

EXCERPT:

"Our main findings show that STH [(sales tax holidays)] do lead households to increase the consumption of children's apparel and school supplies.

"However, our subsequent analysis reveals that **it is only the wealthiest households that statistically significantly take advantage of STHs.**

"The major theme our analysis reveals is that the STH is too blunt a policy tool for addressing the many problems it seeks to resolve. **As a method for stimulating economic activity for a limited number of goods, the STH is shown to be quite effective. As a tool for providing economic relief to certain households, STH has fared quite poorly.**

"Policymakers should be aware that the STH is not a panacea—especially when weighing its effects against the foregone tax revenue."

- WP 2012-10:

Spending Responses to State Sales Tax Holidays

November 2012

<https://www.chicagofed.org/publications/working-papers/2012/wp-10>

EXCERPT:

"There are a number of reasons why instituting an STH may be ineffective, or why doing so may be considered bad public policy.

- ◆ "First, while the sales tax is eliminated for a brief period of time, consumers would not see any benefit if retailers increased the pre-tax price of items; the degree by which prices may be lowered depends on the incidence of taxation.
- ◆ "Second, even if after-tax prices do drop consumers may not purchase any

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more of the targeted item—the degree of change in consumer response depends on the elasticity of demand for the eligible targets.

- ◆ "Third, the temporal nature of the STH may cause consumers to shift planned consumption over time.
- ◆ "**Fourth, because the STH is available to all consumers, unintended recipients, such as wealthy households or those without children, may also take advantage of the holiday, or may even have the means to take better advantage of the STH than the intended beneficiaries. In particular, this may be too blunt a policy instrument for subsidizing the consumption of targeted groups.**
- ◆ "Fifth, there have been complaints of **onerous compliance costs for retailers** who are forced to participate in an STH."

END