



League of Kansas Municipalities

Date: February 5, 2015
To: House Committee on Taxation
From: Larry R. Baer
Legal Counsel
Re: HB 2076
Testimony in Opposition.

Thank you for allowing me to appear before you today and present testimony on House Bill 2076 on behalf of the League of Kansas Municipalities and our member cities. HB 2076 proposes to establish a statewide sales tax holiday which would temporarily suspend the collection of all state and local sales taxes levied upon the goods specified within the bill.

The League stands in opposition to HB2076 and sales tax holidays. A sales tax holiday is yet another intrusion on the sales tax base available to cities, counties and the State. Just as any other tax exemption, a sales tax holiday reduces revenue generated by retail sales to those entities that are reliant upon it. Lost revenues result in either erosion of quality of services, or termination of services, or tax increases to replace the lost revenue to allow service to continue at the level that taxpayers expect.

Seventeen states had some form of a sales tax holiday in 2014. These states vary in the way in which they treat local option sales tax. Some lift all local taxes statewide. Some permit local option on the exemption of qualified sales from local sales tax (such as Missouri and Alabama). At least one (Tennessee), suspends all local sales taxes during the holiday, but reimburses local government for lost revenue.

Studies indicate that sales tax holidays do affect consumer behavior. Timing of purchases may be delayed to take advantage of the holiday. Lower cost goods may be purchased to permit the consumer to stay under the price caps established by the holiday legislation.

A sales tax holiday is one of those things that on the surface sounds like a good idea. However, when studied it becomes clear that it is not sound tax policy and results in adverse fiscal impact upon state and local governments. The Institute on Taxation and Economic Policy in its *"ITEP Guide to Fair State and Local Taxes"*, (released March 2011) states: "...sales tax holidays are a problematic way of achieving low-income sales tax relief, for several reasons." A number of reasons are then listed, including:

- A 3 day sales tax holiday for selected items still forces taxpayers to pay sales tax on these items during the balance of the year, leaving a regressive tax system basically unchanged.

- Sales tax holidays are poorly targeted, providing tax breaks to both the wealthy taxpayer, the non resident and the low-income families to whom the benefit is directed.
- Sales tax holidays do not stimulate the economy. The increased consumption observed during such holidays has been shown to be primarily the results of consumers shifting the timing of their purchases.
- Many low-income taxpayers don't have the luxury of timing their purchases to coincide with the brief sales tax holidays. By contrast, wealthier tax payers are more likely to be able to time their purchase appropriately.
- Retailers know that consumers will shift their spending towards sales tax holidays to take advantage of the temporary tax exemption. Savvy retailers can take advantage of this shift by hiking prices during the holiday.
- Any sales tax exemption creates administrative difficulties for state governments, and for the retailers who must collect the tax. But a temporary exemption requires retailers and tax administrators to wade through a sheaf of red tape for an exemption that lasts only a few days.
- Perhaps most important for cash-strapped lawmakers, sales tax holidays are costly. Revenue lost through sales tax holidays will ultimately have to be made up somewhere else.

A sales tax holiday is not really sound tax policy; its benefits do not necessarily extend to those intended; it does not stimulate the economy; it is subject to abuse both by consumers and retailers; and, is costly to both the state and local governments because of the revenues that are lost. Revenues that are lost must be made up some other way – either by decreasing services or increasing other sources of revenue, including property taxes.

For these reasons the League stands in opposition to HB 2076.