



Testimony in **OPPOSITION** to a Sales Tax Holiday: H-7399

House Committee on Finance

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The Economic Progress Institute **opposes H-7399** which would create a sales tax holiday on August 10 & 11, 2024, eroding state revenues needed for the critical investments used to build thriving communities and a strong, vibrant economy. Despite the obvious appeal, **sales tax holidays are not good public policy.**

Sales tax holidays do not necessarily work as intended for the following reasons:

- To some extent, these holidays **merely shift the days when planned purchases will be made**, rather than generating additional economic activity.
- There is some evidence that **some businesses will reduce discounts or even increase prices** on these holidays, meaning that some of the money saved in taxes by the consumer will be lost to paying higher prices on the items themselves.
- Some portion of the tax **benefit will go to non-residents who cross the border to shop, or tourists who happen to be in the state at the time** and would have made the same purchases anyway.
- They are not well-targeted. Although some tax relief will indeed go to the low-income Rhode Islanders who most need it, **a considerable portion of the relief will go to Rhode Islanders with more disposable income and therefore the least need of this break.** Wealthier consumers with more disposable income also tend to have greater flexibility in terms of work schedule or otherwise to time purchases for such a holiday. Even with this bill's proposed limit of \$2,500 per item, this still leaves considerable room for the purchase of high-priced luxury items.
- Tax holidays create **administrative burdens** for businesses and the Division of Taxation.
- They result in **reduced revenue**, meaning that either **programs will need to be cut or the lost revenue must be recouped by increasing other taxes or revenue sources.**
- This bill appears to **include online purchases made by Rhode Islanders, and such purchases would do nothing to benefit Rhode Island business owners.**

As the Institute on Taxation and Economic Policy's Marco Guzman summarizes in a 2023 policy brief, "These temporary exemptions may seem to lessen the regressive impacts of the sales tax, but their benefits are minimal while their downsides are significant."¹ According to a fiscal note on a similar Senate bill last year, a two-day August sales tax holiday in 2023 would have resulted in **an estimated revenue loss of \$6.2 million.** For all the reasons presented here, we urge you not to send this proposal to the floor.

¹ Marco Guzman, "Sales Tax Holidays: An Ineffective Alternative to Real Sales Tax Reform," *Institute on Taxation and Economic Policy*, August 2, 2023, <https://itep.org/sales-tax-holiday-2023-ineffective-alternative-to-real-sales-tax-reform/>.