

Testimony in **OPPOSITION** to a Sales Tax Holiday: H-7931

House Committee on Finance

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The Economic Progress Institute **opposes H-7931** which would create a sales tax holiday each July going forward, 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.**
- Although the proposal would be limited to Rhode Island retailers, this still might include online purchases made from some large and mostly internet retailers, such as Walmart or Amazon, so long as they have some physical presence in the state.

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 **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/>.