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Texas Annual Sales Tax Holiday: Costly Fool's Gold

Schools, colleges, parks, social services, and other infrastructure are what make Texas a good place to live and work. Taxes are how Texans pay for these things. The state relies heavily on sales taxes, which take a bigger share of the income of low- and middle-income families. To try to make our tax system more fair, since 1999, Texas has held a sales tax holiday the third weekend of every August that temporarily suspends sales taxes for purchases of clothing, shoes, backpacks, and school supplies priced at less than \$100. Sales tax holidays actually do little for low- and middle-income families, while costing Texas needed tax revenue. This *Policy Point* considers the sales tax holiday.

Problem One: Mostly goes to families at the top

The sales-tax holiday mostly benefits higher-income families who can afford to shop in bulk. Families with enough income to pay for a school year's worth of clothes do better than families who can buy just one outfit at a time. In fact, one study showed that more than 40 percent of the total tax savings goes to families with annual incomes over \$70,000.

Problem Two: No real savings for anybody anyway

Retailers know that buyers are attracted by the something-for-nothing illusion of the sales tax holiday and therefore don't offer real back-to-school sales to attract customers. By waiting another weekend for a real sale that may offer 10 percent off your purchases, consumers would save more money than if they bought full-price items on the phony sales-tax holiday sale.

Problem Three: Costs too much

The sales tax holiday isn't free. In 2011, the state will miss out on \$47 million in revenue—enough to have prevented the budget cuts to TEXAS Grants that help high school graduates who have the grades, but not the money, to attend college. Our cities and counties will miss out on \$14 million that could have been used to fund police, fire, and other essential, life-sustaining local services.

In many states with similar sales tax holidays, the law requires the legislature to re-authorize the holiday every year, so that the legislature can take into account whether the state can afford the giveaway. Texas' holiday, on the other hand, is a permanent feature in the Tax Code. Texas needs to at least change its Tax Code so that when the state is facing a revenue shortfall—as it was this year—it can hold off on declaring an expensive holiday. And Texas would be better off doing away with the sales tax holiday altogether.



About CPPP

The Center for Public Policy Priorities (CPPP) is a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans. You can learn more about CPPP at www.cppp.org.

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