



# NANCY VANDERMEER

STATE REPRESENTATIVE • 70<sup>TH</sup> ASSEMBLY DISTRICT

TO: Honorable Members of the Assembly Committee on Children and Families

FROM: State Representative Nancy VanderMeer

DATE: February 3, 2016

SUBJECT: Testimony in Support of AB 781

Thank you Chairman Spiros and members of the Assembly Committee on Ways and Means for holding a hearing on Assembly Bill 781 today. As the author of this legislation, along with Senator LeMahieu, I am pleased to testify before you and to take any questions that committee members may have.

Since being elected, finding ways to reduce government spending and holding the line on taxes has been one of my priorities. Wisconsin has made great strides in recent years to reduce property and income taxes. However, the same cannot be said for sales taxes in Wisconsin.

This legislation creates an annual sales tax holiday on back-to-school items for two days during the first weekend in August. The sales of the following items will be exempt during the sales tax holiday:

1. An item of clothing, not including accessories, if the sales price of any single item is no more than \$75.
2. A computer purchased by the consumer for the consumer's personal use, if the sales price of the computer is no more than \$2,000.
3. School computer supplies, if the sales price of any single item is no more than \$250.
4. School instructional materials, if the sales price of any single item is no more than \$300.
5. School supplies, if the sales price of any single item is no more than \$300.

Not only will this help families keep more money in their pockets, but most importantly it will help ease the financial burden of making sure our children are prepared for the upcoming school year.

Additionally, the Department of Revenue will have the yearly option to suspend the sales tax holiday if it determines such a holiday could jeopardize the state's fiscal health.

In closing, I ask that you join Senator LeMahieu and myself in support of this legislation. Thank you for the opportunity to testify here today, I would be happy to answer any questions you may have at this time.



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# DEVIN LEMAHIEU

## STATE SENATOR

DATE: February 3<sup>rd</sup>, 2016  
RE: **Testimony on 2015 Assembly Bill 781**  
TO: The Assembly Committee on Ways and Means  
FROM: Senator Devin LeMahieu

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Thank you Chairman Spiros and Members of the Ways and Means Committee for hearing my testimony today on Assembly Bill 781. This legislation provides another means to provide tax relief to Wisconsin families of all income levels.

When I ran for office, I pledged to support an “all of the above” plan to reduce taxes in Wisconsin. Wisconsin has made great strides in recent years to reduce property and income taxes. However, the same cannot be said for sales taxes in Wisconsin.

Wisconsin taxpayers deserve a holiday. This legislation creates an annual sales tax holiday on back-to-school items, such as notebooks, binders, and backpacks, on the first weekend in August.

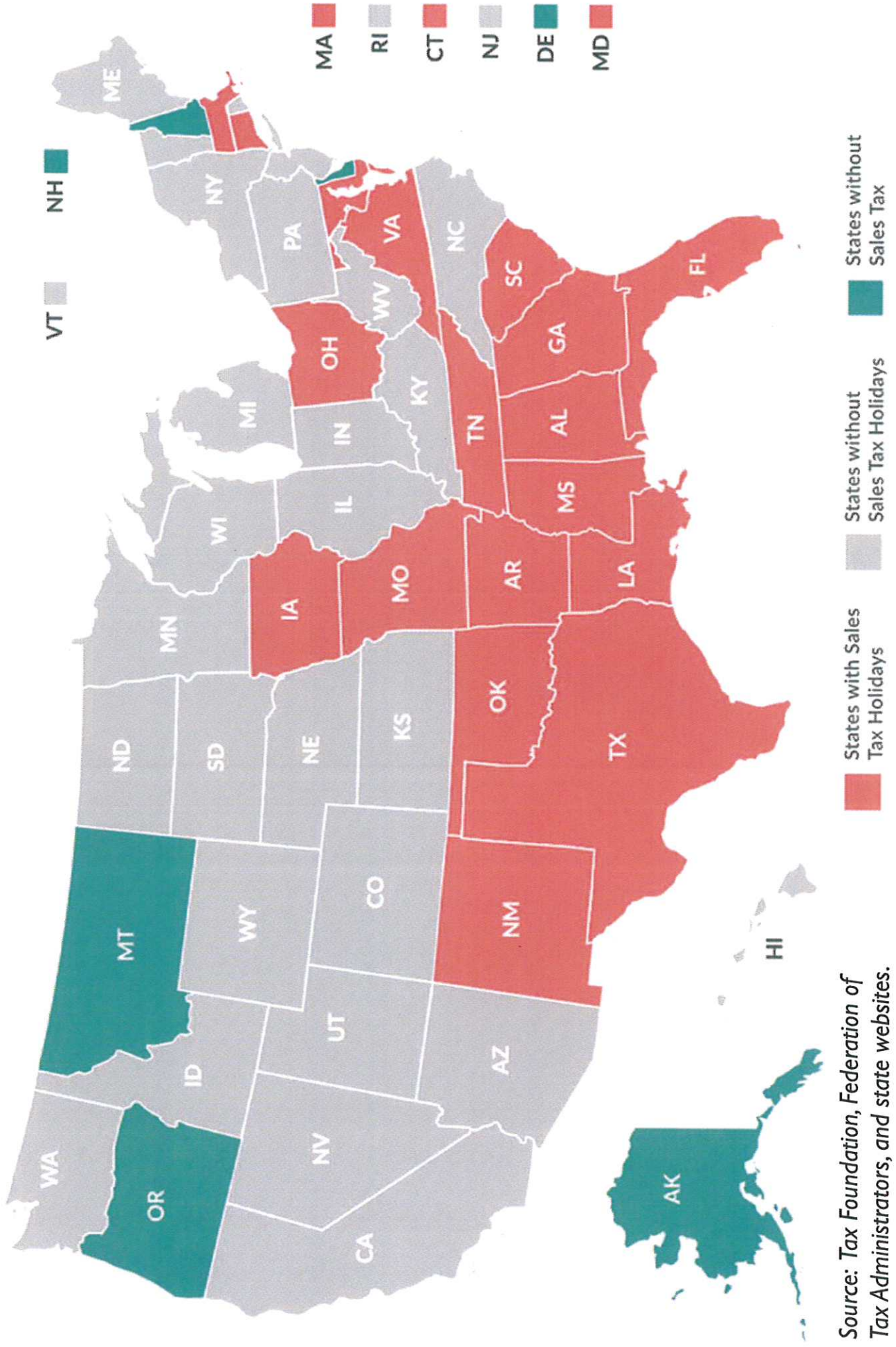
Eighteen states, including neighboring Iowa, had a sales tax holiday in 2015. Importantly, this legislation also includes clothing priced under \$75. Clothing remains exempt from the sales tax in Minnesota.

I will briefly address the fiscal impact of this bill. Unlike prior versions of this proposal, this legislation only includes one sales tax holiday in order to help minimize the impact to the general fund. The Department of Revenue also retains the ability to suspend the sales tax holiday if it determines such a holiday is imprudent.

Further, we also need to consider the fiscal impacts of not taking action. How much business do Wisconsin-based retailers lose over the border to Minnesota? Or to Iowa with its sales tax holiday?

Thank you for your consideration.

# States with Sales Tax Holidays in 2015



Source: Tax Foundation, Federation of Tax Administrators, and state websites.



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children  
& families

Raising Voices To Make Every Kid Count

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## Testimony on Assembly Bill 781

To: Assembly Ways and Means Committee  
From: Jon Peacock, Research Director  
Re: Opposition to AB 781 relating to a sales tax holiday  
Date: February 3, 2016

Thank you for this opportunity to testify on AB 781 on behalf of the Wisconsin Council on Children and Families. Because WCCF is a child advocacy organization, you might guess that we would support a sales tax holiday of this sort, timed when families are getting ready to send their children back to school. However, as appealing as that notion is, state resources are finite and we think there are many more effective things that state lawmakers could do with the \$13 million per year that this bill is expected to cost.

We share the concerns about sales tax holidays that have been expressed by a conservative national organization – the Tax Foundation. I have distributed with my testimony a copy of the executive summary of their August 2015 report titled “*Sales Tax Holidays: Politically Expedient but Poor Tax Policy.*” The following quotes from that executive summary outline some of the key reasons why they have concluded that sales tax policies are not good public policy:

- *Sales tax holidays do not promote economic growth or significantly increase consumer purchases; the evidence shows that they simply shift the timing of purchases. Some retailers raise prices during the holiday, reducing consumer savings.*
- *Sales tax holidays create complexities for tax code compliance, efficient labor allocation, and inventory management.*
- *Most sales tax holidays involve politicians picking products and industries to favor with exemptions, arbitrarily discriminating between products and across time, and distorting consumer decisions.*
- *While sales taxes are somewhat regressive, this does not make sales tax holidays an effective tool for providing relief to low-income individuals.*
- *Political gimmicks like sales tax holidays distract policymakers and taxpayers from genuine, permanent tax relief.*

To their list of concerns, I would add one more – creating tax exemptions is a slippery slope. If you look at the list of 18 states that had back-to-school sales tax holidays last year, 9 of them also had other sales tax holidays – for things like firearms and hunting supplies, hurricane supplies, and energy efficient appliances. Once you begin carving out exempt goods, I suspect there will be no end of the arguments for other tax holidays.

(continued)

We appreciate the desire to help school children and their families, but we think there are much more effective ways to accomplish that, such as reducing some of the cuts that have been made to K-12 education. I could cite many other things that would be more effective investments, such as improved drug screening and treatment, and I'm sure committee members could add many more. However, if spending is off the table and the state has \$13 million per year<sup>1</sup> that you can use for tax relief, there are also more effective ways of targeting tax cuts – such as adjusting the Homestead tax credit for inflation, or following the advice of Congressman Ryan to provide a larger Earned Income Tax Credit for low-wage childless adults.

I'll close by quoting again from the Tax Foundation's report, which says of sales tax holidays:

*"They represent a real cost for businesses without providing substantial benefits. They are also an inefficient means of helping low-income consumers and an ineffective means of providing savings to consumers."*

Thanks again for this chance to share our concerns about AB 781. I'd be happy to answer any questions.

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<sup>1</sup> In addition to that cost for the state, the fiscal estimate projects that counties would lose almost \$1 million per year.

# Sales Tax Holidays: Politically Expedient but Poor Tax Policy 2015

By Scott Drenkard & Joseph Henchman  
 Director of State Projects      Vice President,  
 Legal & State Projects

## Key Findings

- 18 states, primarily in the southeastern U.S., will hold a sales tax holiday in 2015, down from a peak of 19 states in 2010.
- Sales tax holidays do not promote economic growth or significantly increase consumer purchases; the evidence shows that they simply shift the timing of purchases. Some retailers raise prices during the holiday, reducing consumer savings.
- Sales tax holidays create complexities for tax code compliance, efficient labor allocation, and inventory management. However, free advertising for what is effectively a paltry 4 to 7 percent sale 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 between products and across time, and distorting consumer decisions.
- While sales taxes are somewhat regressive, this does not make sales tax holidays an effective tool for providing relief to low-income individuals. In order to give a small amount of tax savings to those with lower incomes, holidays give a large amount of savings to higher income groups as well.
- Political gimmicks like sales tax holidays distract policymakers and taxpayers from genuine, permanent tax relief. If a state must offer a "holiday" from its tax system, it is a sign that the state's tax system is uncompetitive. If policymakers want to save money for consumers, then they should cut the sales tax rate year-round.

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## Executive Summary

Sales tax holidays are periods of time when selected goods are exempted from state (and sometimes local) sales taxes. Such holidays have become an annual event in many states, with exemptions for such targeted products as back-to-school supplies, clothing, computers, hurricane preparedness supplies, products bearing the U.S. government's Energy Star label, and even guns. High-tax New York State sparked the trend in 1997 as a way to discourage border shopping. In 2015, 18 states will conduct sales tax holidays, down from a peak of 19 states in 2010 (see Table 1).

At first glance, sales tax holidays seem like great policy. They enjoy broad political support, with backers arguing that holidays are a highly visible form of tax cut and provide benefits to low-income consumers. Politicians and other supporters routinely claim that sales tax holidays improve sales for retailers, create jobs, and promote economic growth.

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Despite their political popularity, sales tax holidays are based on poor tax policy and distract policymakers and taxpayers from real, permanent, and economically beneficial tax reform. Sales tax holidays introduce unjustifiable government distortions into the economy without providing any significant boost to the economy. They represent a real cost for businesses without providing substantial benefits. They are also an inefficient means of helping low-income consumers and an ineffective means of providing savings to consumers.

Table 1

2015 Sales Tax Holidays &amp; Price Caps

State	Dates	Clothing	School Supplies	Computers	Energy Star	Miscellaneous
Alabama	February 20-22					Generators \$1,000; Hurricane supplies \$60
	August 7-9	\$100	\$50	\$750		Books - \$30
Arkansas	August 1-2	\$100	No Cap			Clothing accessories \$50
Connecticut	August 16-22	\$100				
Florida	August 1-3	\$100	\$15	\$750		
Georgia	July 31-August 1	\$100	\$20	\$1,000		
	October 2-4				\$1,500	
Iowa	August 7-8	\$100				
Louisiana	May 30-31					Hurricane supplies \$1,500
	August 7-8					All purchases of tangible personal property up to \$2,500
	September 4-6					Firearms, ammunition, and hunting supplies (no cap)
Maryland	February 14-16				No Cap	
	August 9-15	\$100				
Massachusetts	August 15-16					All purchases of tangible personal property up to \$2,500
Mississippi	July 31-August 1	\$100				
	September 4-6					Firearms, ammunition, and hunting supplies (no cap)
Missouri	April 19-25				\$1,500	
New Mexico	August 7-9	\$100	\$50	\$3,500		Computer software: \$350
	August 7-9	\$100	\$30	\$1,000		Other Computer Hard-ware: \$500
	November 1-3				No Cap	
Ohio	August 7-9	\$75	\$20			School instructional material up to \$20
Oklahoma	August 7-9	\$100				
South Carolina	August 7-9	No Cap	No Cap	No Cap		Towels and Bedding - No Cap
Tennessee	August 7-9	\$100	\$100	\$1,500		
Texas	May 23-25				(a)	
	August 7-9	\$100	\$100			
Virginia	August 7-9	\$100	\$20		\$2,500	Generators \$1,000; Hurricane supplies \$60

Source: Tax Foundation review of state statutes and revenue department websites.

Note: Massachusetts in 2011, 2012, and 2013 passed legislation for its August sales tax holiday in early August each of those years. As of press time, the House had approved an August 16-17 holiday and the Senate had approved an August 9-10 holiday, but a final bill had not been enacted.

(a) Air conditioners up to \$6,000; refrigerators up to \$2,000; other Energy Star products no cap.



To: Chairman Spriros  
Member of the Assembly Committee on Ways and Means  
From: Scott Stenger, Legislative Director of the Alliance of Wisconsin Retailers  
Date: February 3, 2016  
Re: Support for Assembly Bill 781, relating to a Sales Tax Holiday

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On behalf of the Alliance of Wisconsin Retailers, LLC, which is comprised of leading names in the Wisconsin retail industry and employ over 50,000 people in Wisconsin, I am testifying today in support of Assembly Bill 781, authored by Representative VanderMeer and Senator LeMahieu.

Assembly Bill 781 creates a “back to school” sales tax holiday the first weekend of August to provide Wisconsin citizens assistance when they need it most – when their budgets are stretched thin from buying the needed clothes and school supplies as their kids return to school in the fall.

A sales tax holiday provides that during a limited period of time, sales of certain items are exempt from the sales tax and the use tax. Assembly Bill 781 would allow tax free shopping days for certain items annually the first weekend of August. Specifically the bill would exempt from the sales tax and the use tax the following items:

1. An item of clothing if the sales price of any single item is less than \$75.
2. A personal computer less than \$2000.
3. Computer-related equipment if the sales price for any single item is less than \$250.
4. School instructional materials if the sales price for any single item is less than \$300.
5. School supplies if the sales price of any single item is less than \$75.

The proposal would allow the Department of Revenue to determine by May 1<sup>st</sup> that the state’s financial situation would make implementation of the exemptions imprudent.

In 2015, eighteen states held one or more sales tax holidays, including neighboring state Iowa. It should also be noted that 5 states don’t collect sales tax at all, and neighboring state Minnesota doesn’t collect sales tax on certain items, such as clothing. Sales tax holidays have been widely popular around the country, with both consumers and retailers alike.

Contrary to conventional wisdom, states that have a sales tax holiday have experienced overall higher sales tax collection. In states with a Sales Tax Holiday:

- Sales of both taxable and non-taxable items increase significantly. Taxable items grew as much as 50% while non-taxable items grew by as much as 35%.



- Sales tax holidays significantly increase customer traffic resulting in major retailers adding additional jobs.
- Sales of all merchandise increase over a sales tax holiday weekend.

In Florida, taxable sales of items related to the 2010 sales tax holiday grew by \$115 million. Florida retailers also added 8300 payroll hours over the three day event. The three day sales tax holiday resulted in the following findings in a study by the Washington Economics Group, Inc.

1. Increase gross retail sales by about 8 percent on a statewide basis, with smaller counties experiencing increases of about 5 percent and larger counties experiencing increases of about 9 percent.
2. Increase workforce utilization and Labor Income.
3. Increase overall tax collections.

In the State of Washington, a study by the Washington Economics Group, Inc. concluded the sales tax holiday would have the following impact:

- Creation of 1,555 jobs – 83 percent in the retail sector and the rest distributed over the economy as a whole.
- A \$46 million increase in labor income (earned income) – About 74 percent in retailing and the rest distributed over the economy as a whole.
- A *net increase* in state and local taxes of \$12.6 million.

The Alliance of Wisconsin Retailers urges your support for a sales tax holiday in Wisconsin. Please support Assembly Bill 781.