



Sales Tax Holiday Returning To Massachusetts — But Is It A Good Idea?

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This year's sales tax holiday in Massachusetts is set for August 29 and August 30, but is it good policy?

Retail items for personal use valued up to \$2,500 will be exempt from the state's 6.25 percent sales tax. The tax break does not apply to "Meals, Motor vehicles, Motorboats, Telecommunications services, Gas, Steam, Electricity, Tobacco products, Marijuana or marijuana products, Alcoholic beverages, and Any single item whose price is more than \$2,500," according to the state's web site.

Massachusetts Governor Charlie Baker touts the announcement as a great economic opportunity.

"The annual sales tax holiday is an opportunity for us to support small businesses and consumers, and this year, it's a great way to support our economy that's been impacted by COVID-19," he said in the press release. "This pandemic has created enormous challenges for the Commonwealth's small businesses, and the sales tax-free weekend is one way that we can encourage more economic activity to help Main Street businesses and local economies."

Some agree with him, but others don't.

On the plus side, he earned praise from Paul Craney of the Massachusetts Fiscal Alliance; in a statement, Craney said it was not previously clear if the state would have a sales tax holiday this year due to a drop in revenue associated with the coronavirus shutdown, but that Baker made the right move.

"Retailers have been hit especially hard by this pandemic," Craney said. "With any luck, the Sales Tax Holiday will begin the healing process for them and start bringing back customers who have grown accustomed to traveling out of state to make their purchases.

"If we're really serious about jumpstarting this sector of our economy, serious consideration should be given to expanding the sales tax holiday and extending it to meals as a boost for our struggling restaurants," he added. "Other states are serious about getting these sectors of their economies moving again, it's time for Massachusetts to join them."

Baker made the sales tax holiday an annual occurrence as a part of his so-called "Grand Bargain" in 2018 where he got a permanent sales tax holiday in exchange for raising the minimum wage to \$15 an hour by 2023, and raising the payroll tax by 0.75 percent to implement paid family leave.

Christopher Carlozzi, the state director for the National Federation of Independent Business-Massachusetts, also praised Baker's decision.

He said a sales tax holiday is especially important this year.

"Small businesses need every advantage possible after having their doors closed for nearly three months," Carlozzi told New Boston Post in an email message. "The sales tax holiday is an excellent opportunity to bring shoppers looking for unique products and budget-friendly deals back into small businesses that have experienced far fewer sales during the pandemic. Massachusetts' recovery will be dependent upon the success of Main Street businesses and the sales tax holiday is another step towards job creation and economic growth."

Outside of Massachusetts, however, a few policy institutes offered criticism of Baker's decision.

Chris Edwards, the director of tax policy studies at the libertarian-leaning CATO Institute, told New Boston Post in an email message that while sales tax holidays make political sense, "they don't make economic sense."

"Sales tax holidays are favored by governors to obscure weak taxpayer records, and Governor Baker is no exception," Edwards wrote. "Baker imposed a massive \$800 million payroll tax increase on Massachusetts families with his paid leave scheme, and now he's throwing families a few crumbs back with a sales tax holiday."

"If sales tax holidays were actually about saving families money, why not just adjust the sales tax rate downwards which would be simpler?" he added. "The reason is politics. Governors like the cheap publicity of short-term holidays so they can pose as friends of family budgets in overtaxed states."

As Edwards notes, Baker's paid family leave program is funded with a 0.75 percent payroll tax increase.

Janelle Cammenga, a policy analyst at the right-leaning Tax Foundation, is another critic of sales tax holidays.

She told New Boston Post in an email message that they are an indicator that the governor is not serious about providing tax relief for the Commonwealth.

"Sales tax holidays are often called upon to encourage consumer spending, but studies show that they cause shoppers to largely shift the timing of their purchases, instead of increasing the amount of those purchases," Cammenga wrote. "However nice they may sound, sales tax holidays create large compliance burdens for small sellers and distract policymakers from real, lasting change."

"If a state feels the need to provide a holiday from its sales tax, it's an implicit recognition that the system is uncompetitive," she added. "If the state really wants to save money for consumers, it should look to cutting the sales tax rate year-round."

A 2017 [study conducted by the Federal Reserve](#) deemed sales tax holidays ineffective. It concluded "that sales-tax holidays are associated with significant shifts in the timing of purchases by consumers" and that "the patterns are suggestive that consumers adjust their spending behavior noticeably to take advantage of the temporarily lower prices."

The latter part means that businesses raise their prices temporarily in response to the sales tax holiday.

Lucy Dadayan, a senior research associate at the left-leaning Tax Policy Center, told New Boston Post there are a few practical problems with the sales tax holiday. She noted that this year, it will be harder to capitalize on it for back-to-school shopping because the sales tax holiday is at the end of August as opposed to the middle of it.

She added, “In general, a sales tax holiday is not a prudent fiscal policy and not an effective measure for providing tax relief to low-income consumers or boosting the state economy. Instead, sales tax holidays are unnecessary disruptions that might boost politicians’ popularity at a cost to consumers and businesses. Moreover, sales tax holidays create unnecessary complexities.”

The August 2020 version of the Massachusetts sales tax holiday figures to be the 14th of the current century.

First floated in 2001 on Beacon Hill, the state’s sales tax holiday first occurred in August 2004, when Mitt Romney was governor. Back then, the state sales tax was 5 percent. Now it’s 6.25 percent, with a 0.75 percent local add-on option.

State legislators enacted a sales tax holiday most years since then – until 2018 with an ad-hoc, one-time-only bill each year.

State legislators didn’t enact a sales tax holiday in 2009, in the aftermath of the financial meltdown that decreases state tax revenues. (The most recent increase in the sales tax rate, from 5 percent to 6.25 percent, took effect August 1, 2009.)

Beacon Hill leaders also skipped a sales tax holiday in 2016, when tax revenue collections during the last year of the Obama presidency fell short of projections. They also skipped it in 2017.

The sales tax holiday returned in 2018 as part of the so-called Grand Bargain that included minimum wage increases and paid family and medical leave. The Grand Bargain bill supposedly made the annual sales tax holiday permanent, although state legislators could alter that status in the future.