

Sales Tax Holiday

South Carolina's Experience

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History

- 1997 New York (permanent)
- 1999 Florida (none in 2002), Texas
- 2000 Iowa, Connecticut, South Carolina, Pennsylvania
- 2001 Maryland (cancelled 2002), D.C.
- 2002 West Virginia, Georgia

The Statute

SECTION 12-36-2120. Exemptions from sales tax.

Exempted from the taxes imposed by this chapter are the gross proceeds of sales, or sales price of:

(57)(a) [during the first weekend in August]

(i) **clothing**;

(ii) **clothing accessories** including, but not limited to, hats, scarves, hosiery, and handbags;

(iii) **footwear**;

(iv) **school supplies** including, but not limited to, pens, pencils, paper, binders, notebooks, books, bookbags, lunchboxes, and calculators;

(v) **computers**, printers and printer supplies, and computer software.



Not exempt under statute

(b) The exemption allowed by this item does not apply to:

(i) sales of jewelry, cosmetics, **eyewear**, wallets, watches;

(ii) sales of furniture;

(iii) a sale of an item placed on layaway or similar deferred payment and delivery plan however described;

(iv) **rental** of clothing or footwear;

(v) a sale or lease of an item for use in a trade or business.



Public Notice

- (c) Before July tenth of each year, the department shall publish and make available to the public and retailers a list of those articles qualifying for the exemption allowed by this item.



Implementation

- What is exempt?
- Getting the word out
- How much does it cost
- How is it reported?
- How to deal with violators
- Misinformation
- Tracking results
- Ongoing Issues



What is exempt?



- Billed as a “back to school” holiday
- Most people assumed only and all school supplies would be exempt.



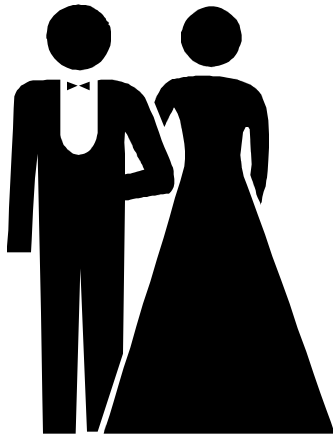
Exemptions: Intentions/Actions



- Clothing and accessories.
- Wedding gowns?
- Scuba gear?
- Diapers
- In-line skates
- PJs



Exemptions: Intentions/Actions



- Rental clothing is not exempt.
- Bride's gown is exempt, but the groom's rented tux isn't.



Exemptions: Intentions/Actions



- School Supplies are exempt.
- Items used in a trade or business are not exempt.
- Are supplies bought by a school an item used in a trade or business? The exemption does not apply to items purchased for use in a trade or business, i.e., private for-profit schools. It is applicable to private non-profit schools and public schools. As such, several schools purchased their computers during the sales tax holiday.



Exemptions: Intentions/Actions



- When is a piano a school supply?
- Backpacks for hiking vs. for book bags
- Sporting equipment vs. sports clothing



Exemptions: Intentions/Actions



- School supplies
- Parents wanted to exempt everything needed by their children going off to college. E.g., dorm refrigerators.



Exemptions: Intentions/Actions



- Computers and peripherals are exempt
- Computer parts are not exempt.
- School computers?
- Computers used by those without school age children are exempt too.



Exemptions: Intentions/Actions



- School supplies are exempt but
- Eyewear is not exempt.



Exemptions: Intentions/Actions



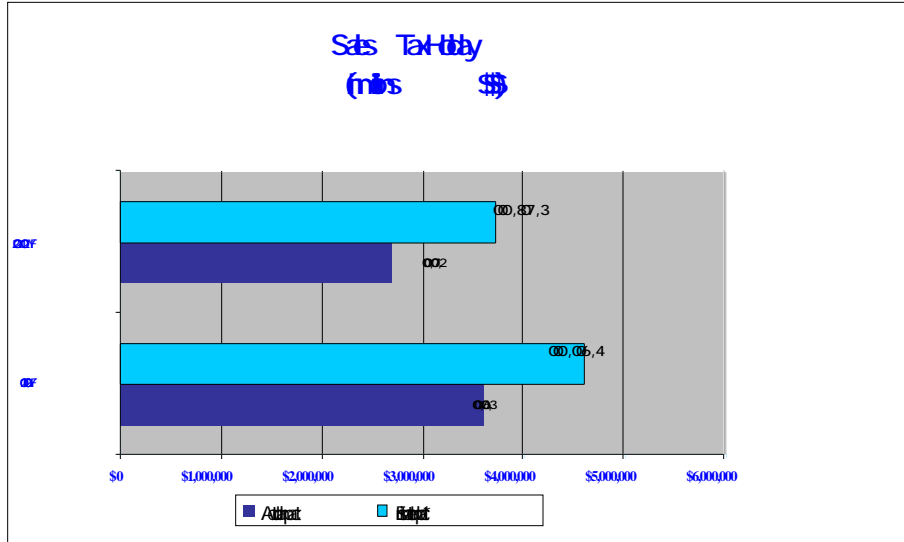
- We stole shamelessly from other states with sales tax holidays.
- We developed policy documents and asked for input.
- Our exemption documents are on our website.

Getting the word out



- Press conferences with the Governor
- Press releases
- Posters on the web that retailers could print
- Delivered posters
- SC Retailers Ass'n
- Advertised in IIT booklet

How much does it cost?



How is it reported?



- Many retailers do not report it at all.
- Some reduce their gross sales figures by holiday exempt items
- 2001-2002: we have a line on the form for sales tax holiday deductions.



How to deal with violators

- “We don’t participate in that program.”
- Statute doesn’t have a special enforcement mechanism.
- Revoke retail sales license.
- Failure to report properly - \$500



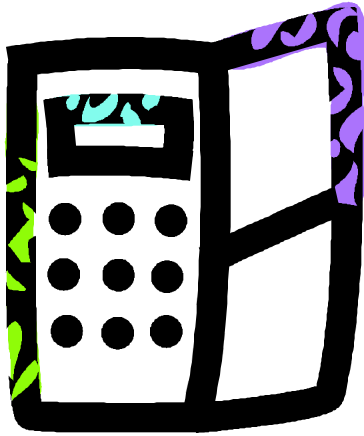
Misinformation



- Retailers using advertisements from other states with different holidays – e.g., \$100 cap on clothing purchases
- Retailers assuming the holiday was optional.



Tracking results



- Line on the form
- 2000 - \$3.2 million
- 2001 - \$2.4 million



Other policy decisions

- Returns if purchased before and returned during the holiday
- Rain checks (not exempt)
- LOST
- Books (if school supplies)
- Fabric for sewing clothing



Ongoing Issues

- Advising retailers annually about the holiday.
- Whether and when to enforce penalties for incorrect reporting.
- Having more than one per year.
- No cap on the purchase price of items, e.g., clothing, musical instrument.
- Sellers who offer their own “tax holiday” on items that are not within the statute. (SC is a retailer liability state.)



Ongoing Issues

- Is it worth it? FTA: “Research suggests a typical family spends around \$250 on back-to-school clothes. An average 6 percent sales tax exemption, then, would represent \$15 in tax savings to the family.”
- Is it good policy? David Brunori, contributing editor for *State Tax Notes*: The states are blinding the taxpayers to the reality of the other 51 weeks in a year, when the state sales tax is inherently regressive and "unjust." As for the holiday itself, he called it an "inefficient way to provide relief to lower-income taxpayers.”
- Do sellers mark up price or avoid other sales?

FTA – Current Update

- Connecticut: ?
- Florida: No holiday ratified for 2002
- Georgia: 2 holidays in 2002 – clothing, school supplies, computers
- Iowa: ?
- Maryland: Holiday cancelled
- New York: Permanent
- Pennsylvania: 14 days; computers
- South Carolina: 2002 holiday in August
- West Virginia: 2002 – clothing, school supplies, computers

More information?



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