

GEORGIA STATE UNIVERSITY
ANDREW YOUNG SCHOOL OF POLICY STUDIES
FISCAL RESEARCH PROGRAM
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ECONOMIC IMPACT ANALYSIS: Proposed Sales Tax Holiday

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Issue

The Governor is considering proposing a sales tax holiday. The holiday would apply to school supplies and all computer and computer-related accessories used for non-business home or personal use up to \$1,500. This note provides estimates of the fiscal effect on state sales tax revenue. There would be two sales tax holidays each lasting two days: Friday and Saturday (March 29 and 30) and Friday and Saturday (August 2 and 3).

Analysis

We estimate that the holiday on school supplies will reduce state revenue by \$1.567 million, and that the holiday on computer and accessories will reduce state revenue by \$1.942 million. The estimated total sales tax revenue loss is \$3.509 million. These estimates are for one year, i.e., both of the two proposed sales tax holidays and do not include any local sales tax revenue loss.

The attached tables explain how the estimates were developed.

**GEORGIA STATE REVENUE LOSS ESTIMATE FOR PROPOSED 2002 SALES TAX HOLIDAY
ON SCHOOL SUPPLIES**

| Item | Value |
|--|---------------------|
| Average Annual Household Spending on School Supplies (households with a member under 18) | \$118 / household |
| Eligible Annual Spending Assumption (with <18) | \$100 / household |
| Eligible Annual Spending Assumption (households without a member under 18) | \$22.50 / household |
| Georgia Data from the 2000 Census | |
| Total households | 3,006,369 |
| Households with individuals under 18 years | 1,174,114 |
| Spending - Revenue (in millions of \$) | |
| Annual Eligible Spending, GA Households with a member <18 | \$117.4 |
| Multiply by: 1/4 Annual Spending Plus 1/52 Annual Spending | 26.92% |
| Eligible Holiday Spending Without a Demand Adjustment, GA Households with a member <18 | \$31.6 |
| Annual Eligible Spending, GA Households without a member <18 | \$66.5 |
| Multiply by: 2/52 Annual Spending | 3.85% |
| Eligible Holiday Spending Without a Demand Adjustment, GA Households without a member <18 | \$2.6 |
| Sum: Eligible Holiday Spending Without a Demand Adjustment | \$34.17 |
| Elasticity Estimate | 2 |
| Multiply by: Holiday-Induced Spending Increase (4% price cut * elasticity estimate) | 8.0% |
| Eligible Holiday Spending w/ behavior | \$36.9 |
| State Revenue Loss to Household Purchases (4% of eligible spending) | \$1.476 |
| Revenue Estimate for Business Purchases During the Holiday | |
| Georgia Businesses with Less than 50 Employees (1999) | 186,277 |
| Multiply by: Eligible Consumer Holiday Spending (w/ behavior) | \$12.27 / household |
| Business Holiday Spending (millions) | \$2.29 |
| State Revenue Loss to Small Business Purchases (4% of eligible spending) | \$0.091 |
| Total State Revenue Loss (millions) | \$1.567 |

Notes: Household spending estimate for families with children based on Capital One 2001 survey. Estimate for other households based on a small survey by estimators. For households without children, the holiday is assumed to draw two weeks worth of shopping to reflect the timing of purchases and the fact that weekends are more active. For households with children, the August holiday is assumed to draw 1/4 annual spending and the other holiday is assumed to draw one week of spending. The estimate also includes a price-induced increase in demand *and* comparable purchases by Georgia small businesses. The revenue loss total does not include the loss to border states by any visitor shopping in Georgia and does not include any local revenue effects.

**GEORGIA STATE REVENUE LOSS ESTIMATE FOR PROPOSED 2002 SALES TAX HOLIDAY
ON COMPUTERS AND COMPUTER-RELATED ACCESSORIES (DOLLAR AMOUNTS IN
MILLIONS EXCEPT WHERE NOTED)**

| Item | Value |
|---|---------------------|
| 2001 U.S. Computer, peripherals and software spending | \$37,200.0 |
| Multiply by: Georgia share of U.S. Personal Income for 2000 | 2.75% |
| 2001 GA Computer, peripherals and software spending | \$1,024.7 |
| Multiply by: Two weeks out of 52 | 3.85% |
| Eligible Holiday Spending w/o behavior | \$39.4 |
| Elasticity Estimate | 4 |
| Multiply by: Holiday-Induced Spending Increase (4% price cut * elasticity estimate) | 16.0% |
| Eligible Holiday Spending w/ behavior | \$45.7 |
| State Revenue Loss to Household Purchases (4% of eligible spending) | \$1.829 |
| Revenue Estimate for Business Purchases During the Holiday | |
| Georgia Businesses with Less than 50 Employees (1999) | 186,277 |
| Multiply by: Eligible Consumer Holiday Spending (w/ behavior) | \$15.21 / household |
| Business Holiday Spending (millions) | \$2.83 |
| State Revenue Loss to Small Business Purchases (4% of eligible spending) | \$0.113 |
| Total State Revenue Loss (millions) | \$1.942 |

Notes: Computer, peripheral and software spending projected from the National Income and Product Accounts based on the income elasticity from 1995 to 2000. The estimate is based on holidays that draw two weeks worth of shopping to reflect the timing of purchases and the fact that weekends are more active. The estimate also includes a price-induced increase in demand *and* comparable purchases by Georgia small businesses. The revenue loss total does not include the loss to border states by any visitor shopping in Georgia and does not include any local revenue effects.