



WYOMING LEGISLATIVE SERVICE OFFICE

Issue Brief

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Re: Sales Tax Holidays

PURPOSE

Summarize Wyoming sales tax structure and other states' actions to suspend the sales taxes to encourage people to purchase clothing and school supplies at slightly less cost.

RESULTS IN BRIEF

Wyoming currently imposes a four percent state sales and use tax. Counties have the option of adding up to two percent in additional sales and use tax, with voter approval, making six percent the highest sales tax authorized. The Legislature could authorize a temporary exemption from this tax and could designate the scope of what is exempted from taxation. A number of other states allow for such a practice and call it a "tax holiday" or a "tax free day."

QUICK FACT

Mississippi was the first state to adopt a sales tax, doing so in 1932. Since that time, 45 states and the District of Columbia have adopted a tax on general retail sales transactions and some have extended the tax to certain services. Wyoming first adopted a sales tax in 1937. Only five states, including Wyoming's neighbor to the north, Montana, do not have a sales tax.

WYOMING SALES TAX

W.S. 39-15-101 through 39-15-311 governs the imposition, administration, exemptions, rates, collection and distribution of sales taxes in Wyoming. W.S. 39-16-101 through W.S. 39-16-311 provide comparable language governing use taxes. The sales tax is an excise tax that is

imposed on the retail sale of tangible property and certain services. Services that are taxed are either specifically listed by statute to be taxed or fall into the general category of "the price paid for services performed for the repair, alteration or improvement of tangible personal property." The actual taxpayer is the purchaser of the good or service. However, the retailer remits the tax to the state Department of Revenue. Specific *exemptions* are provided for in law (W.S. 39-15-105), while other activities are *excluded* because they are not subject to sales tax in the first place.

The state sales tax rate is four percent (W.S. 39-15-104). Currently, revenue from the state tax is generally divided with 69 percent going to the state General Fund and 31 percent directed to local governments. Counties can impose up to an additional one percent general purpose tax with voter approval (W.S. 39-15-204(a)(i)). Counties, by a vote of the electorate, can also impose up to one percent sales tax for economic development (W.S. 39-15-208(a)(vi)). Additionally, with voter approval, counties can add two percent optional sales tax for specific purposes (W.S. 39-15-204(a)(iii)); however, in no event shall the total local sales tax exceed two percent for general, economic development, or special purposes (W.S. 39-15-204(a)(iv)). The optional lodging tax, ranging from one to four percent, is a further form of sales tax available to Wyoming counties (W.S. 39-15-204(a)(ii)).

In FY06, the Wyoming Department of Revenue reported collecting \$801,247,715 in sales taxes net of lodging tax, interest collected, penalties collected, taxpayer reserves, and fees. As of April

1, 2006, the majority of Wyoming counties imposed the one percent general purpose county option, and ten counties imposed some specific purpose county option. Table 1 illustrates the sales tax rates imposed in Wyoming counties.

Table 1. Sales Tax Rates by Locality Effective April 1, 2006.

County	State Tax Rate		General Purpose County Option Tax Rate		Specific Purpose County Option Tax Rate		Total Sales Tax Rate
Albany	4%	+	1%	+	1%	=	6%
Big Horn	4%	+	1%	+		=	5%
Campbell	4%	+	1%	+	0.25%	=	5.25%
Carbon	4%	+	1%	+	1%	=	6%
Converse	4%	+	1%	+		=	5%
Crook	4%	+	1%	+	1%	=	6%
Fremont	4%	+		+		=	4%
Goshen	4%	+	1%	+		=	5%
Hot Springs	4%	+	1%	+		=	5%
Johnson	4%	+	1%	+		=	5%
Laramie	4%	+	1%	+	1%	=	6%
Lincoln	4%	+	1%	+		=	5%
Natrona	4%	+	1%	+		=	5%
Niobrara	4%	+	1%	+	1%	=	6%
Park	4%	+		+		=	4%
Platte	4%	+	1%	+		=	5%
Sheridan	4%	+	1%	+	1%	=	6%
Sublette	4%	+		+		=	4%
Sweetwater	4%	+	1%	+	1%	=	6%
Teton	4%	+	1%	+	1%	=	6%
Uinta	4%	+	1%	+		=	5%
Washakie	4%	+		+	1%	=	5%
Weston	4%	+	1%	+		=	5%

Source: Wyoming Department of Revenue.

TAX FREE HOLIDAYS

According to the Federation of Tax Administrators (FTA), fifteen states currently allow for some type of sales "tax holiday". The concept behind a tax holiday is to provide taxpayers a temporary exemption from a tax. This should not be confused with a general exemption for which there is no period specifically designated. FTA reports that proponents of sales tax holidays view them as a way to "alleviate the tax burden on working families, as well as a means of jump-starting local retail businesses." FTA cautions, however, that critics see the policy

as a gimmick that provides little real relief to consumers and represents bad tax policy. According to FTA, a typical family spends around \$250 on back-to-school clothes. A six percent sales tax exemption would result in a savings of \$15 for the family.

For states that provide a tax holiday, the exemption is for a temporary period of time and typically precedes the traditional beginning of the school year. In addition, most states offering a tax holiday limit the items to which the exclusion applies, including such items as clothing,

footwear, school supplies, and computers. There is also generally a ceiling imposed on the amount of a purchase to which the exemption applies. The seemingly obvious purpose of the policy is to target back-to-school shopping and provide some tax relief for school-related purchases.

Table 2, below, illustrates the 2006 sales tax holidays in the fifteen states which allow them. While there is some variation, there is a general pattern of the items included, cost ceilings, and time frame to which the exemptions apply.

Table 2. 2006 State Sales Tax Holidays.

State	Days	Items Included	Maximum Cost	1 st Year	2006 Dates
Alabama	3	clothing, computers, school supplies, books	\$100 \$750 \$50 \$30	2006	Aug. 4 – 6
Connecticut*	7	clothing	\$300	2001	Aug. 20 – 26
District of Columbia	9	clothing and school supplies	\$100	2004	Aug 5 – 13
Florida	12	hurricane supplies	N/A	2005	May 21–June 1
	7	energy efficient appliances	\$1,500	2006	Oct. 5 – 11
	9	clothing,	\$50	1998	July 22 – 30
	9	school supplies	\$10	1998	July 22 – 30
Georgia	4	clothing,	\$100	2005	Aug. 3 – 6
		school supplies,	\$20		
		computers	\$1,500		
		energy efficient products	\$1,500		
Iowa	2	clothing	\$100	2000	Aug. 4 – 5
Maryland	5	clothing	\$100	2006	Aug. 23 – 27
Massachusetts	2	all tangible items	\$2,500	2004	Aug. 12 – 13
Missouri	3	clothing,	\$100	2004	Aug. 4 – 6
		school supplies, computers	\$50 \$3,050 ⁽¹⁾		
New Mexico	3	clothing,	\$100	2005	Aug. 4 – 6
		school supplies,	\$15		
		computers	\$1,000		
North Carolina	3	clothing and school supplies,	\$100	2001	Aug. 4 – 6
		sports equipment,	\$50		
		computers	\$3,500		
South Carolina	3	clothing, computers, school supplies, other	N/A	2000	Aug. 4 – 6
Tennessee	3	clothing,	\$100	2006	Aug. 4 – 6
		school supplies,	\$100		
		computers	\$1,500		
Texas	3	clothing	\$100	1999	Aug. 4 – 6
Virginia	3	clothing,	\$100	2006	Aug. 4 – 6
		school supplies	\$20		

Source: Federation of Tax Administrators published data.

Notes: * Connecticut has enacted a 13 month sales tax holiday on residential weatherization and energy efficiency products and energy efficient heating equipment. The tax holiday is effective June 1, 2006 through June 30, 2007.

FINANCIAL IMPACTS

The financial impact to the adoption of a sales tax holiday for back to school shopping could vary widely depending on various factors. The change in tax revenue to the state of Wyoming General Fund and the local governments would depend on things such as the length of the sales tax holiday, if there was a maximum cost allowed, and what items would be exempted. These factors would have a large impact on the change in tax revenues.

The tax saving to consumers is equally variable depending on the parameters outlining the sales tax holiday. It is also difficult to determine how the sales tax holiday would affect the shopping behavior of consumers.

If one assumes that each Wyoming household (2.5 members) took advantage of a cumulative \$300 tax free purchase, the total fiscal impact would be approximately \$3.12 million (or about \$1.66 million impact to the state's general fund and roughly \$1.46 million to local governments.)

Two other points may be worthy of consideration as well. First, a tax credit would likely create an administrative cost to the state of Wyoming and vendors to determine how to apply the tax credit. In other words, there would likely be an administrative cost for the processing of tax credits (or reimbursements) associated with the tax free holiday. Second, having no tax at the specified vendors would likely allow consumers to take advantage of the benefit multiple times. Put differently, if no tax was applied, shoppers would likely be able to use any maximum dollar amount, at multiple store locations, or through multiple purchases.

CONCLUSION

Wyoming could adopt a sales tax holiday similar to those illustrated above by identifying specific items to be exempted and a time frame for which the exemption would apply. In doing so, the Legislature may want to consider whether or not a maximum cost should apply to an item included in the exemption. It may also be appropriate to consider whether the exemption applies to the state tax rate alone or to the county imposed

options as well. Once the structure is defined, it would be necessary to identify how the exemptions would be administered.

ADDITIONAL READING

Federation of Tax Administrators, *State Tax Holidays: Tax Holidays Return to Favor*, Available online at: [http://www.taxadmin.org/fta/rate/sales_holiday.html#chart]