



## **Prepared Statement of Grover Norquist before the House of Representatives' Committee on Small Business, November 15, 2001**

The national sales tax holiday is a broadly bipartisan proposal. Support for the idea comes from all parties, all regions, all conceivable interests. And with excellent reason: a national sales tax holiday would give the US economy the sort of jumpstart it needs, and at the best possible time.

Let's not forget that we are closing in on the start of the all-important holiday shopping season. People will be cracking their wallets open anyway to buy gifts, but we need to encourage shoppers to crack them open just a little bit wider. Most agree that current economic conditions are not exactly conducive to retail spending of the sort we usually expect after Thanksgiving, and upon which retailers and manufacturers depend.

Indeed, for many businesses, the holiday shopping season can provide a profit margin for the entire year if shoppers continue to hit the stores and malls in steadily increasing numbers, and conversely, a loss on balance for the entire year if too many shoppers decide to stay at home.

But experience has shown that when given the proper incentives, consumers will spend more than they are generally inclined to do. Sales tax holidays provide that incentive. They have been tried before at the state and local level, at minimal "cost" to the government, and to the maximum benefit of shoppers and businesses alike. They aren't a gaggle of wild theories that exist solely in an Economics 101 textbook, they are real world practices which have been put to the test repeatedly and in several different permutations, all with impressive results.

Simply put, they work. And there's no reason whatsoever that a sales tax holiday wouldn't yield similar results at the national level. Consider these examples of how this exciting new idea has been tried all across America:

- This year in Washington, DC, a sales tax holiday from August 3 through August 12 provided for an exemption from the 5.75% sales tax for footwear, clothing and school supplies, each item less than \$101.00, purchased during the holiday period. DC has a higher sales tax than neighboring Virginia (4.5%) and Maryland (5%), and

parents in DC didn't have to leave the city to save a few dollars before the start of the school year.

- Texas' third three-day sales tax holiday, from August 3-5, lifted sales taxes (a hefty 6.25% at the state level in addition to those applying at the local level) on most clothes and shoes—including boots, of course—that sell for less than \$100. According to the Texas Retailers Association, the first sales tax holiday attracted more shoppers than most department stores' 20 percent-off sale (in 1999, consumers in Texas purchased \$400 million worth of tax-exempt clothing, double the typical sales of an equivalent week in August). J.C. Penney has reported that sales doubled in its 82 Texas stores during one of the holidays.
- In South Carolina from August 3-5, shoppers got a break for a second time from the state's 5% sales tax along with any local taxes levied by some counties. Items exempted from the sales tax included clothing, footwear, school supplies, computers, and computer accessories. As a direct result, sales of computer products increased an astounding 80%.
- Pennsylvania, which doesn't impose its sales tax on clothing, waived the state's 6% sales tax on all home computers purchased from August 6-13. As a direct result, sales of computer products increased 60%. (Could there be a better way to bridge the supposed "digital divide" than what South Carolina and Pennsylvania did before the start of the school year?)
- Connecticut's second sales tax holiday week occurred from August 19-25 of this year. (And the people of Connecticut certainly needed it: they have the highest per capita tax burden of any state.) Shoppers got a reprieve from the state's 6% sales tax on items of clothing and footwear priced under \$300 by increasing the sales tax exemption that usually applies to clothing and footwear priced under \$75.

The sales tax holiday concept has also been tried, to rave reviews, in Maryland, New York, Florida, Ohio, and Iowa. I expect that many other states will have sales tax holidays of their own very soon—and will certainly urge them to do so.

But with the clock ticking and the US economy recovering yet wobbling, concerted action must be taken NOW. That action must be taken at the federal level, and taken immediately, by passing the legislative framework that would make a nationwide (and simultaneous) sales tax holiday possible. After all, many (if not most) shoppers in every state do have a pronounced tendency to start buying presents for the holidays on the exact same day. Therefore, coordination is of the essence.

I cannot stress enough the fact that under the national sales tax holiday arrangement, **no participating state will lose tax revenue**. Not one. Indeed, it is highly probable that they will gain more revenue from the federal government than they would receive if they abstain from participation. In all likelihood, this year's holiday season will not rack up the sales like last year's, and sales tax revenues will be lower as well.

By offering participating states, say, the equivalent of their respective average sales tax take over the three previous years, this arrangement will definitely not blow holes in their budgets. Indeed, it's a very, very good deal.

Let's also be aware that a national sales tax holiday would be a significant tax cut for lower income Americans more than anyone else.

The wealthy obviously aren't affected by, and therefore don't worry about, the impact of sales taxes nearly as much. Instead of handing out "refund" checks for income taxes that were never paid in the first place, it would be administratively easier for the government, more equitable for taxpayers, and more beneficial to the economy as a whole if we took the national sales tax holiday route.

I cannot end without mentioning the recent report issued by the Commerce Department. It was heartening, but somewhat misleading. While we did have a 7.1% leap in retail sales last month, that figure is inflated by car sales. With 0% financing deals now widely available, who in their right mind wouldn't seize the opportunity to buy a car or two?

If you remove car sales from the equation, overall retail sales in October climbed a meager 1% above the dismal sales totals of September. That is unacceptable. We can—and should—do better. And there's a surefire way to get retail sales back to where they need to be: a national sales tax holiday.

In *Field of Dreams*, Kevin Costner heard a voice that told him: "Build it and they will come." When it comes to the sales tax, all I can say in summation is: "Lift it and they will shop."