

Tax Holidays Make the Mountain State's Economy Stronger

Longer tax-free periods will provide more opportunities for West Virginians to consume more goods and grow the economy.

Story By Dashle Gunn Kelley

From Sept. 1 to Sept. 7, West Virginians did not have to pay the normal 6 percent sales tax on Energy Star appliances. These tax-exempt appliances were determined energy efficient by the U.S. Environmental Protection Agency and the U.S. Department of Energy.

This was a great opportunity for shoppers to save money on washing machines, dishwashers, other appliances and on future energy bills as well. The holiday also encouraged conservation that hopefully will alleviate some of the recent environmental and energy concerns.

Although the conservation and consumer benefits are easy to see, this tax holiday is a unique opportunity to observe the costs of taxation. When a tax is put in place, the benefits are obvious in the number of increased tax revenues and in the form of the government's purchases and projects. The lost economic production that does not occur because of the tax, the cost is more difficult to distinguish.

A standard assumption of economics is that people do less of an activity if the cost of doing it rises. For example if gas prices increase, people drive less. With all else being equal, they use less gasoline. People also substitute other means of travel for driving; they may choose to walk or bike more often.

This simple example can be applied to taxes. A sales tax raises the cost of buying goods; thus, consumers react by purchasing less. Instead of going to the government via transfer, this tax money could be spent on additional goods and services. This process generates wealth and makes everyone in society better off through economic growth.

During the sales tax holiday, consumption increased. This is the reverse of the above example. The price of appliances for consumers decreased, thereby increasing the total number of purchases made. Of course, not all of the consumption from Sept. 1-7 took place because of the tax holiday. But based on this economic principle, we know that some of this consumption would not have taken place if there had not been a tax holiday.

The Governor's Office estimated that West Virginians would pocket \$300,000 in forgone taxes due to the holiday. If every appliance buyer would have bought these products anyway regardless of the tax holiday--which is unlikely--the economy is still better off. This saved money could be spent on food, clothes and other goods and services that help West Virginia businesses. Even if this money was saved instead of spent, banks could loan this money to homebuyers and entrepreneurs.

Lower taxes help consumers buy more. West Virginia is not the only state to offer its citizens a tax holiday this summer; more than a dozen states have waived their state sales taxes on various items. Tax holidays are a good way for a state government to help its citizens' dollars go further, which ultimately helps the economy.

It is great to see the tax holiday will be lengthened from one week to three months in 2009 and 2010. These longer tax-free periods will provide more opportunities for West Virginians to consume more goods and grow the economy. But one should also remember that citizens could receive these benefits all year long if everyday were a sales tax holiday.

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