



Geoffrey E. Snyder
Commissioner

The Commonwealth of Massachusetts
Department of Revenue
Office of the Commissioner
P.O. Box 9550
Boston, MA 02114-9550

December 31, 2024

Mr. William J. McNamara
Comptroller
Commonwealth of Massachusetts
1 Ashburton Place, 9th Floor
Boston, MA 02108

Re: 2024 Sales Tax Holiday Impact Analysis (August 10 and 11, 2024)

Dear Mr. McNamara:

Pursuant to G.L. c. 64H, § 6A and St. 2019 c. 49, the Department of Revenue (DOR) hereby certifies the amount of forgone sales tax revenue due to the sales tax holiday that occurred on August 10 & 11, 2024.

Based on our analysis of the available data, DOR estimates that the amount of forgone sales tax revenue was approximately \$37,855,389.25. DOR estimates that the sales tax holiday reduced the amounts deposited into the General Fund by \$24,934,091.18, the MBTA State and Local Contribution Fund by \$6,803,957.28, the School Modernization and Reconstruction Trust Fund by \$6,045,459.03, and the Convention Center Fund by \$71,881.76. DOR also estimates, with less certainty, that increased economic activity due to the sales tax holiday generated additional indirect tax revenues (such as income tax from increased employment) of approximately \$3,542,000.00.

Attached is a copy of our analysis explaining how we arrived at these estimates, and caveats. If you have any questions concerning this matter, please contact me (snyderge@dor.state.ma.us) or Kazim P. Ozyurt, Director of the Office of Tax Analysis (ozyurtk@dor.state.ma.us).

Sincerely,

A handwritten signature in dark ink, appearing to read "G. Snyder", written over a light blue horizontal line.

Geoffrey E. Snyder
Commissioner

cc: Matthew Gorzkowicz, Secretary of Administration and Finance
The Honorable Aaron Michlewitz, Chair, House Committee on Ways and Means
The Honorable Michael J. Rodrigues, Chair, Senate Committee on Ways and Means
The Honorable Mark J. Cusack, House Chair, Joint Committee on Revenue
The Honorable Susan L. Moran, Senate Chair, Joint Committee on Revenue

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Title: 2024 Sales Tax Holiday Impact Analysis (August 10 and 11, 2024)

Legal Reference: G.L. c. 64H, § 6A and St. 2019 c. 49¹

Overview: Generally, the state imposes a sales and use tax at the rate of 6.25% on the sales price of many “tangible” goods, utilities, and telecommunications services, and on meals served at restaurants. Residential electricity, gas, steam, and certain telecommunications charges are exempt from the sales tax under the current law. The sales/use tax statutes also contain various other product-based exemptions, including exemptions for food, prescription medicines, certain medical products, and clothing with a sales price of up to \$175.

The sales tax holiday legislation waives the sales tax on otherwise taxable non-businesses purchases made on the annual two-day “sales tax holiday”, except purchases of telecommunications services, tobacco products, marijuana or marijuana products, alcoholic beverages, gas, steam, electricity, motor vehicles, motorboats, meals, and any single item the price of which is in excess of \$2,500. Prior sales and layaway sales are not eligible for the sales tax holiday.

In 2024, the sales tax holiday occurred on August 10 and 11.²

Data, Assumption, and Methodology: The Department of Revenue (“DOR”) does not collect data on the amount of taxable purchases made for business use versus non-business use, nor does it track sales of individual items. As a result, DOR extrapolated estimates using aggregated data. DOR conducted the analysis in two different ways: (1) based on monthly sales tax return data; and (2) using credit card transactions and sales tax collections data.

Under the first method, DOR used sales tax return data to produce an estimate of the amount of exempt sales on the dates of the sales tax holiday. Generally, sales are reported by retailers on a monthly basis, and so there is no way to know how much a vendor sold on any one day of a particular month. Sales exempt from tax, including sales from the sales tax holiday, are reported on line 2 of the sales tax return³, labeled “Sales for resale/exempt sales or other adjustments”. DOR analyzed the returns of taxpayers identifying themselves by NAICS⁴ code as part of the broad category of retailers, although this does leave out some retail sales made by other businesses. By focusing only on retailers, it is likely that the result from this method somewhat understates the amount of forgone revenues.

In the past 16 years there was a sales tax holiday every year except 2009, 2016, and 2017. To assess the revenue impact of the 2024 sales tax holiday, the amount of exempt sales reported in August 2024 was compared to the amount of exempt sales reported in August 2016 and 2017, and the amount of exempt sales in the period May-July 2024, after controlling for the fluctuation of monthly gross sales. Using this method, the 2024 sales tax holiday was estimated to have reduced sales tax revenue by \$27,034,728.50.

The revenue loss impact estimate produced by this method fails to consider the impacts from businesses that identify themselves in NAICS categories other than those principally making retail sales. Omitting

¹ St. 2019 c.49 amends G.L. c. 64H, § 6A to exclude “meals”.

² <https://www.mass.gov/info-details/sales-tax-holiday-frequently-asked-questions#after-the-sales-tax-holiday->

³ See form ST-9, available on DOR’s website: https://www.mass.gov/files/documents/2017/12/12/dor-sales-use-form-st-9.pdf?_ga=2.155491384.22386900.1541626355-212796560.1535490284

⁴ NAICS is the North American Industrial Classification System, under which businesses are supposed to identify their principal industry.

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those sellers may result in an understatement of the amount of forgone revenue. To account for this, a second method based on credit card transaction data was also used.

For the second method, DOR obtained data from a major credit card company on credit card transactions which occurred in Massachusetts in the months of August 2005 and August 2018⁵ in order to determine the percentage of credit card sales volume attributable to transactions during the sales tax holidays compared to the total transactions for the month as a whole. Assuming that the percentage of sales attributable to the sales tax holiday is not likely to have changed significantly since then, the average of the percentages from those two years was then applied to DOR's sales tax collections for August 2024. The estimated revenue loss impact from this methodology was \$48,676,051.00.

State Fiscal Year Revenue Loss Impact Estimates: Under the current law, the sales tax holiday is no longer scheduled as a one-time event but a permanent annual event.⁶ The range of revenue loss impact estimates for the calendar year 2024 sales tax holiday are provided in the table below. DOR's final midpoint revenue loss impact estimate is \$37,855,389.25.

Estimated Revenue Loss Impact of the 2024 Sales Tax Holiday

Fiscal Year	Lower Bound	Midpoint	Upper Bound
2025	\$27,034,728.50	\$37,855,389.25	\$48,676,051.00

Forgone Revenues by Fund:

Portions of regular sales tax revenue are currently deposited into the General Fund, the MBTA State and Local Contribution Fund,⁷ the School Modernization and Reconstruction Trust Fund,⁸ and the Convention Center Fund.⁹ It is estimated that the sales tax holiday lowered the amounts deposited into the MBTA State and Local Contribution Fund by \$6,803,957.28, the School Modernization and Reconstruction Trust Fund by \$6,045,459.03, and the Convention Center Fund by \$71,881.76. The reduction in the amount deposited into the General Fund was estimated to be \$24,934,091.18.

Additional Revenue Collected Due to Increased Sales Activity:

DOR is required by statute to provide an estimate of new revenues (revenue gain) raised from personal and corporate income taxes and other sources because of the sales tax holiday. It is theoretically possible that sales tax holidays increase overall economic activity. Although this activity may cause, for example, employment to increase through increased sales, DOR does not have direct data to estimate this revenue

⁵ Most recently available credit card data is for 2018.

⁶ See G.L. c 64H § 6A.

⁷ See Chapter 127 of the Acts of 1999.

⁸ See Chapter 210 of the Acts of 2004.

⁹ See Chapter 152 of the Acts of 1997, as amended. In fiscal years prior to fiscal year 2015, a portion of regular sales tax revenue was also deposited into the Commonwealth Transportation Fund. See Chapter 35 of the Acts of 2009; Chapter 46 of the Acts of 2013, Section 25 and 26.

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gain. Although the estimate was provided for the impact of the sales tax holiday on economic activity based on the literature research and a general equilibrium analysis, the finding should not be considered to be definitive. DOR estimates that the indirectly generated revenue gain due to the sales tax holiday would be about \$3,542,000.00. That estimate assumes that the state does not reduce spending by the static revenue impact reported earlier to balance the budget, accordingly.¹⁰

Studies conducted by *Tax Foundation*¹¹ and *Institute on Taxation and Economic Policy (ITEP)*¹² indicate that increased sales during sales tax holidays are more likely to be the result of consumers shifting the timing of their planned purchases rather than a net increase in consumer purchases, while another study concludes that sales tax holidays do in fact substantially increase net consumer spending on covered goods.¹³ Findings from yet another study¹⁴, though two decades old, suggest that businesses tend to offer less generous markdowns and/or increase their prices during the sales tax holiday than they would in the absence of a holiday, and therefore sales tax holidays stimulated fewer consumer purchases than expected. Based on these varied results, the indirect revenue gain estimate of \$3,542,000.00 should be used with caution.

Confidence Level: The static estimates of sales tax revenue loss are similar to the forecast estimate DOR conducted prior to implementation of the sales tax holiday. Therefore, DOR is reasonably confident that the true amount of forgone sales tax revenue lies within the range provided.

As mentioned above, there is a much greater uncertainty as to how a sales tax holiday affects economic activities. Therefore, the estimate of revenue raised indirectly as a result of the holiday should be used with caution.

¹⁰ When estimating the indirect impact, DOR usually does not consider the balanced budget requirement. If considering the balanced budget requirement, the size of net indirect impact would be significantly reduced.

¹¹ Refer to <https://taxfoundation.org/data/all/state/sales-tax-holidays-2022/>

¹² Refer to <https://itep.org/sales-tax-holiday-2023-ineffective-alternative-to-real-sales-tax-reform/>

¹³ Agarwal, Marwell, and McGranahan, Consumption Responses to Temporary Tax Incentives: Evidence from State Sales Tax Holidays, *American Economic Journal: Economic Policy*, 2017, 9(4): 1–27

¹⁴ Harper, Hawkins, Martin, and Sjolander, Price Effects around a Sales Tax Holiday: An Exploratory Study, *Public Budgeting & Finance*, Winter 2003