

State now has 2 sales-tax holidays

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MONTPELIER – Vermont business owners are hoping a pair of sales-tax holidays slated for the coming fiscal year will offer respite from a prolonged dip in retail sales.

On Tuesday, Gov. James Douglas signed into law a bill that, among other things, establishes sales-tax holidays in August of this year and March of 2010. Area retailers say the measure, a component of Douglas' economic-development package that the Legislature initially rejected, will buoy recession-battered bottom lines.

"We all feel sales tax holidays are a good policy instrument to get people into the stores," says Tasha Wallis, head of the Vermont Retail Association. "In a downturn, the sector in the economy that takes one of the biggest hits is retail, so anything that encourages retail activity is positive."

A drop in consumer spending nationally has hit the retail sector particularly hard. Sales for food and retail in April were down more than 10 percent over last year, according to U.S. Census data. The figures reflect a trend that saw food and retail sales for the first quarter of 2009 drop by about 9 percent year-over-year.

In Vermont, where the \$12 billion retail sector is responsible for employing about 18 percent of the state workforce, business owners are looking for a dose of good medicine.

"What this sales tax holiday will hopefully do is make me feel comfortable that I don't have to cut anyone's hours or lay anybody off," says Andrew Brewer, owner of Onion River Sports in Montpelier.

Sales are off this year at Brewer's Langdon Street sporting-goods store. He isn't worried about going out of business, but the dip in retail activity, he says, has certainly forced some belt-tightening.

"It's not all doom and gloom. It's a number we can work with," Brewer says. "But when times are tight like this, it's hard to reinvest."

During Vermont's first-ever sales-tax holiday last July, Brewer says, he saw sales climb by 300 percent over that weekend the prior year. Though sales dropped in the week leading up to the big weekend and slacked off again the

Saturday and Sunday after, the promotion offered a net gain in sales, he says, and a 10-percent jump in gross monthly profit.

"The beauty of it is there's a discount at the register but I'm not the one giving the discount," Brewer explains. "I get great gross sales, but it doesn't cut into gross profit."

Legislators this year initially dismissed the governor's tax-holiday proposal out of hand. The state experimented with the concept in 2008, when Douglas included the two-day holiday as part of his economic-stimulus package. Lawmakers this year were more reluctant to embrace a plan that would cost the state a projected \$1.5 million to \$2.7 million in foregone revenue.

But testimony from business owners like Don Meyer of Small Dog Electronics, combined with an apparent desire to appease fiscal conservatives reeling over the Legislature's 2010 state budget proposal, compelled lawmakers to include the holidays in a "companion" bill passed during their two-day special session.

"I do feel that the sales tax holiday is a very effective economic stimulus activity," Mayer says. "... The retail sector is hurting and it's hurting badly, and unless we can strengthen the retail sector and consumer spending, our economy is not going to recover."

Sales-tax holidays have a particular benefit for stores selling bigger-ticket items. Small Dog Electronics, a retail outlet for Apple computer products, saw astounding results during the 2008 holiday. Total weekend sales at stores in Waitsfield and South Burlington hit \$687,000, a 2,200-percent increase over the weekend of the year prior. The spike helped increase sales for the entire month of July, Mayer says, by nearly 100 percent.

Mayer says he understands legislators' reluctance to forego precious state revenue at a time when human services programs are undergoing drastic reductions. But an infusion for local retailers, he says, helps everyone in the long run.

"The tradeoff to me is very clear – we need an economic stimulus to keep businesses going and therefore preserve the jobs associated with them," Mayer says.

Retailers say they're fascinated by the psychology of the sales-tax holiday. The sales event amounts only to a 6 percent discount – barely enough to raise consumer eyebrows in any other context.

"If any retailer ran a huge sale offering 6 percent off, they'd get laughed out of town," says Norm Lash, owner of Sofas 'n More in Rutland. "But people love to not pay tax, if they can. It's a psychological thing."

Lash says businesses took a beating in a fiscal year 2010 state budget plan that includes increases in unemployment insurance and other taxes. Lash, who sits on the board of the Rutland County Pro-Business Coalition, says Vermont's economic fortunes rise and fall alongside its businesses successes or failures.

"The state is having some serious fiscal challenges, and on one hand you can look at the lost revenue from a sales tax holiday, but on the other hand you're bringing in lots of out-of-state consumers, and that figures into employment numbers and income taxes and all sorts of things," Lash says. "The actions of the Legislature for the most part this year were pretty anti-business. So to see this happen is something I think the governor did a good job with."

Unlike 2008, when the sales-tax holidays were combined into a single summer weekend, the fiscal year 2010 promotion will include one Saturday in August and one in March. Wallis says the change will help maximize the benefit for retailers.
