



November 1997

The Temporary Clothing Exemption

*Analysis of the Effects of the
Exemption on Clothing Sales in
New York State*

Contents

| | | |
|---|---|----|
| Executive Summary | | 1 |
| | Clothing Sales | 1 |
| | Regional Patterns | 1 |
| | Comparison to Last Year's Sales | 1 |
| | State Tax Reduction | 2 |
| | Local Tax Reduction | 2 |
| | Survey of Consumers and Retailers | 2 |
| <hr/> | | |
| Introduction | | 5 |
| | Background | 5 |
| | Endnotes | 8 |
| <hr/> | | |
| Analysis of the One-Week Exemption | | 9 |
| | Clothing Sales During the Exemption Week | 9 |
| | Changes in Shopping Patterns | 9 |
| | Additional Sales Generated by the Exemption | 21 |
| | Amount of State and Local Tax Reduction | 23 |
| | Endnotes | 26 |
| <hr/> | | |
| Consumer and Retailer Views on the Clothing Exemption | | 29 |
| | Cross Border Shopping | 29 |
| | Mail Order Shopping | 29 |
| | Effect of the Temporary Exemption on Clothing Purchases | 30 |
| | Views on a Permanent Exemption | 30 |
| | Views on Temporary Exemptions | 31 |
| | Endnotes | 32 |
| <hr/> | | |
| The Effect of Tax Differentials on Cross Border Sales | | 33 |
| | Economic Studies | 33 |
| | Endnotes | 35 |

| | | |
|------------|---|-----|
| Tables | Table 1: Reported Clothing Sales During One-Week Exemption by Taxing Jurisdiction | 10 |
| | Table 2: Comparison of Reported Clothing Sales and Estimated Annual Clothing Sales by County | 14 |
| | Table 3: Comparison of Reported Clothing Sales and Annual Taxable Sales of General Merchandise & Apparel Stores by County | 18 |
| | Table 4: Comparison of Quarterly Sales for Sales Tax Vendors Indicating Sales of Exempt Clothing | 22 |
| | Table 5: Amount of State and Local Tax Reduction by Taxing Jurisdiction | 24 |
| Figures | Figure 1: Distribution by County of Statewide Clothing Sales During the Exemption Week | 12 |
| | Figure 2: Percentage Change in County Portion of Statewide Clothing Sales - Clothing Sales in Exemption Period Compared to Estimated Annual Sales | 16 |
| | Figure 3: Percentage Change in County Portion of Statewide Clothing Sales - Clothing Sales in Exemption Period Compared to Annual Taxable Sales of General Merchandise and Apparel Stores | 20 |
| Appendixes | Appendix A: Clothing Exemption Legislation Introduced in the 1997-1998 Regular Session | A-1 |
| | Appendix B: Results of Resident and Nonresident Surveys | B-1 |
| | Appendix C: Results of Retailers Survey | C-1 |
| | Appendix D: References | D-1 |
| | Appendix E: Technical Services Bureau Memorandum 96(15)S - Discussion of Rules for Exemption Week | E-1 |
| | Appendix F: Technical Services Bureau Memorandum 96(15.1)S - Local Option for Temporary Clothing Exemption | F-1 |
| | Appendix G: Legislative Mandate for Study as Contained in Chapter 309 of the Laws of 1996 | G-1 |

Executive Summary

Legislation passed with the 1996-97 State budget provided for a temporary sales tax exemption for sales of items of clothing selling for less than \$500 during the week of January 18-24, 1997. The legislation also provided that the Department of Taxation and Finance report on the effect of the temporary exemption.

Clothing Sales

Statewide, the reported sales of clothing during the exemption week totaled \$412 million. By comparison, average weekly sales of clothing in the month of January without the exemption would have been approximately \$238 million.

Regional Patterns

Ten counties, including four in the area surrounding New York City, experienced higher than normal sales as a portion of statewide clothing sales.

The largest portion of clothing sales took place in New York City (31 percent of Statewide clothing sales for the week). Other taxing jurisdictions in which large amounts of sales took place included Nassau County (20 percent of reported sales), Westchester County (12 percent), Suffolk County (6 percent), Albany County (5 percent), and the City of Yonkers (5 percent).

Tax return data indicate that, in addition to changes in total sales, the county portions of Statewide clothing sales were different during the exemption period than during an annual period. Ten counties experienced higher than normal sales as a portion of Statewide clothing sales. All other counties, as well as New York City, experienced lower or unchanged sales as a portion of Statewide clothing sales.

Comparison to Last Year's Sales

The increase in sales between the quarter the exemption took place and the same quarter last year was 2.9 percent Statewide

Clothing purchases during the exemption week were one of three types. Some were purchases that consumers would have made during that week even without the exemption. Others were purchases that consumers simply shifted from prior or later weeks by delaying or accelerating their purchases to take advantage of the exemption. The balance were sales that were truly generated by the exemption i.e. purchases made by residents or non-residents because the after tax price of clothing was lower. If the temporary exemption truly generated a large amount of additional sales one would expect to find that sales for the quarter in

and 4.5 percent in New York City.

which the exemption took place would be significantly higher than in the comparable quarter one year earlier. However, it appears that sales of stores that sell most of the clothing purchased in New York State were only slightly higher in the quarter in which the exemption took place. Statewide, the increase in sales between the two comparable quarters was 2.9 percent. A comparison of the two quarters for New York City indicated an increase of 4.5 percent. In the taxing jurisdictions outside of New York City, sales increased by approximately 2.0 percent.

State Tax Reduction

The total reported reduction in State sales tax resulting from the exemption was \$16.5 million

At the time that the legislation was enacted the amount of the State sales tax reduction associated with the temporary exemption was estimated at \$20 million. Based on tax return data the reported State sales tax reduction on clothing sales during the exemption week totaled approximately \$16.5 million.

Local Tax Reduction

The total reported reduction in local sales taxes was approximately \$15.5 million.

The total reported reduction in local taxes for the counties and cities that participated in the exemption was approximately \$15.5 million. Of that total, the largest portion was from New York City. The reported reduction in New York City sales tax resulting from the temporary exemption was approximately \$5.4 million. The other taxing jurisdictions affording consumers the largest sales tax reductions included Nassau County (\$3.7 million), Suffolk County (\$1 million), Albany County (\$864,000), City of Yonkers (\$768,000), and Westchester County (\$601,000).

Survey of Consumers and Retailers

The most frequently indicated reason for purchasing clothing out of state was to avoid paying the sales tax.

In an effort to gauge the reaction to the temporary exemption among consumers and retailers, the Department sent questionnaires to 5,000 New York residents, 1,000 residents of bordering states and more than 2,500 large retailers believed to be selling clothing. Interestingly, some of the survey results with regard to increased sales of clothing due to the temporary exemption do not appear to correspond to the tax return results from the exemption week. Among the more significant survey results are the following:

Cross Border Shopping

The survey of consumers appears to confirm that cross border shopping is very common among New York State residents. Sixty-six percent of the resident respondents indicated that they purchased some clothing from out-of-state retailers during the prior year. Clothing purchased out of state represented 16 percent of resident respondents' annual clothing purchases. Among the resident respondents that indicated a reason for shopping out of state, the most frequently indicated reason was to avoid paying sales tax (30 percent of respondents).

Mail Order Shopping

The survey also indicated that mail order shopping is very common among New York residents. Fifty-one percent of the resident survey respondents indicated that, in the previous year, they purchased clothing from mail order retailers that do not collect New York State sales tax. Mail order purchases accounted for nearly 14 percent of the prior year's clothing purchases of residents responding to the survey. Among the resident respondents that indicated a reason for shopping by mail order, 22 percent indicated that one of their reasons was to avoid the sales tax.

Effect of the Temporary Exemption

Sixty-three percent of New York residents responding to the survey indicated that the exemption affected their clothing purchases.

Retailer's Reported Sales

The survey of retailers indicated that sales for the one week were dramatically higher than for the comparable week in the prior year. The largest portion of retailers responding to this question (23 percent) indicated that their sales of clothing for the week increased by 20-50 percent. Among the retailers indicating an increase, the average increase in sales of clothing and footwear over the comparable week last year was approximately 41 percent. Among retailers that sell primarily clothing and footwear and that indicated an increase in sales during the exemption week, the average increase was approximately 51 percent.

Views on a Permanent Exemption

Among the resident respondents, more than 83 percent indicated that they would increase their spending on clothing in New York if clothing were exempt from tax. In addition, more than 44 percent of residents responding indicated that a permanent exemption would cause them to decrease their clothing purchases in other states. Among residents responding to the survey, 29 percent indicated that a permanent exemption would cause them to decrease their mail order clothing purchases. Among retailers answering our question regarding the desirability of a permanent exemption, 93 percent indicated that they favor such an exemption.

Introduction

Background

Legislation passed with the 1996-97 State budget provided for a temporary sales tax exemption for sales of items of clothing selling for less than \$500.¹ The exemption was provided during the week of January 18-24, 1997. The legislation also required that the Department of Taxation and Finance report on the results of the temporary exemption by November 1, 1997. Subsequent legislation passed with the 1997-98 State budget provided for two additional temporary exemption periods for clothing (excluding footwear) selling for less than \$100. The dates of the additional temporary exemption periods are September 1-7 of 1997 and 1998. In addition, that legislation provided for a permanent exemption of clothing, excluding footwear, selling for less than \$100. The permanent exemption is scheduled to take effect December 1, 1999. This report examines only the results of the temporary exemption which took place in January, 1997.

On an annual basis, the sales tax on clothing generates approximately \$1.4 billion in State and local sales tax revenue.

This report focuses only on an exemption provided during the week of January 18-24, 1997. As a result, the discussion and analysis should be kept in perspective. Because of the temporary nature of the exemption, the clothing sales data from the one week period may not be indicative of consumer reaction to a permanent exemption. For example, some consumers may have made clothing purchases simply because the tax free week took on the nature of an “event.” Conversely, the short time frame of the exemption may not have allowed other consumers to adjust their shopping patterns to the extent that they may when the exemption becomes permanent.

Clothing has been subject to New York State’s sales tax since the inception of the tax in 1965. Prior to that, clothing was subject to sales taxes imposed by the City of New York and 12 other localities. On an annual basis, the sales tax on clothing generates approximately \$1.4 billion in State and local sales tax revenue.

Proposals to exempt clothing also have a long history in the State. Just four years after the State adopted the sales tax, a bill was introduced in

the Senate to exempt the first \$100 of a clothing purchase from the sales tax.² Each year since then, various legislators, retailers and consumers have called for legislation to exempt some form of clothing from the sales tax. The proposed exemptions have taken many forms ranging from broad exemptions for all clothing to limited exemptions for used clothing or children's clothing. The justifications for the proposals have also been widely varied. They have ranged from lessening the regressivity of the State's sales tax to promoting economic development within the State. Appendix A provides a summary of the clothing exemption legislation proposed during the 1997-98 legislative session.

Nationally, only six states exempt clothing. However, four of those six states border New York State.

Nationally, of the 45 states that impose sales taxes, 39 tax clothing. However, four of the six states that exempt clothing border New York State.³ Those states are Connecticut, Massachusetts, New Jersey and Pennsylvania.⁴ This concentration of exempt states around New York makes it appear to many residents that New York's sales tax base is out of line with other states' bases. More importantly, since more than 60 percent of the State's population lives within easy driving distance of a bordering state or Canada,⁵ the tax differential may encourage the State's residents to travel out of state to purchase clothing.⁶ Finally, New York's taxation of clothing may discourage out-of-state residents from traveling into New York to purchase clothing.

The January 1997 temporary exemption was intended by policymakers to be an experiment that would allow them to view consumer reaction to the elimination of the tax. One of the goals of the exemption was to help determine whether eliminating the tax differential would significantly increase clothing sales by New York retailers.

The legislative mandate for this study provided that the Department describe and evaluate the effect of the one-week exemption while taking into consideration such factors as the concerns of sales tax vendors and the effect of an exemption on cross border and mail order shopping for clothing. The evaluation that follows is based on three distinct approaches to evaluating the temporary exemption. First, data from schedules filed with quarterly tax returns by all sales tax vendors selling clothing during the exemption period were analyzed. The schedule showed the amount of clothing sold in each taxing jurisdiction in the State during the exemption week. The schedule permitted the quantification of the total cost of the temporary exemption to the State and each taxing jurisdiction. Second, surveys of New York residents, residents of

bordering states and clothing retailers were conducted as means of evaluating the effect of the temporary exemption. Finally, empirical economic literature on the influence of sales tax differentials on cross border sales was reviewed to determine whether those studies would provide insight on this issue.

Endnotes

1. Unless otherwise stated, all references to clothing in this paper refer to both apparel and footwear selling for less than \$500.
2. Senator Present introduced the first bill to exempt clothing in 1969. His bill proposed to exempt the first \$100 of a clothing purchase.
3. In addition, because Canada imposes a value added tax (VAT), New York residents are eligible for a refund of the VAT paid on clothing when they bring the clothing back into New York.
4. The other two states that exempt clothing purchases are Rhode Island and Minnesota. Vermont is the one bordering state that taxes clothing. The Vermont sales tax rate is 6 percent.
5. Based on 1990 U.S. Census of Population. Includes all residents of New York City and residents of border counties living within 15 miles of the State border.
6. Use Tax - In theory, the imposition of the compensating use tax should make the differences in New York's taxation of clothing and the exemption of clothing in bordering states a moot point. If all taxpayers were aware of, and complied with, the State's use tax provisions, there would be no economic benefit to making clothing purchases in bordering states that exempt clothing. Similarly, there would be no economic advantage in shopping via catalogs. However, in point of fact, it is widely acknowledged among states that collection of use taxes from individual consumers, i.e., not from businesses, is difficult to enforce. Consequently, compliance with the use tax on out-of-state or mail order purchases of clothing is generally believed to be low. Throughout this report it is assumed that the difference in taxation of clothing between New York and non-taxing states is not mitigated by compliance with the State's use tax provisions.

Analysis of the One-Week Exemption

Clothing Sales During the Exemption Week

The most frequently asked question regarding the temporary exemption has been: “What was the effect of the exemption on clothing sales during the week?” Table 1 shows the sales of clothing during the exemption period as reported by sales tax vendors.¹ In addition, Table 1 and Figure 1 show the portion of Statewide clothing sales that took place in each taxing jurisdiction during the exemption week. As indicated in Table 1, the total reported Statewide sales of clothing during the exemption week was \$412 million.

The largest portion of clothing sales during the exemption week were in New York City (31 percent), Nassau County (20 percent) and Suffolk County (6 percent).

The largest portion of clothing sales took place in New York City (31 percent of Statewide clothing sales for the week). Other taxing jurisdictions in which the largest portions of Statewide clothing sales took place included Nassau County (20 percent of reported sales), Suffolk County (6 percent), Albany County (5 percent), Westchester County (5 percent), and the City of Yonkers (5 percent).

Changes in Shopping Patterns

The distribution of clothing sales among the State’s counties appears to have changed during the exemption week.

Analysis of the tax return data also indicated changes in regional patterns of clothing sales during the exemption period. For this analysis, each county’s percentage of Statewide clothing sales during the exemption week was compared to two indicators of the county’s “normal” percentage of Statewide clothing sales. The first measure used for comparative purposes was estimated annual clothing sales as published in Demographics USA - County Edition by Market Statistics.² The second measure was reported taxable sales of apparel and general merchandise retailers for a recent 12-month period.³ According to the United States Bureau of the Census those two types of stores account for approximately 95 percent of clothing sales in the State.

Table 1: Reported Clothing Sales During One-Week Exemption by Taxing Jurisdiction

| Taxing Jurisdiction | Number of Vendors Reporting Clothing Sales During Exemption Week | Total Reported Sales of Clothing Reported During Exemption Week | Percentage of Statewide Clothing Sales During Exemption Week |
|--------------------------|--|---|--|
| Total All Jurisdictions | 9,829 | \$411,867,135 | 100.00% |
| Albany | 230 | 21,608,491 | 5.25% |
| Allegany | 59 | 160,195 | 0.04% |
| Broome | 163 | 3,394,565 | 0.82% |
| Cattaraugus | 65 | 454,780 | 0.11% |
| Olean (City only) | 43 | 298,815 | 0.07% |
| Salamanca (City only) | 14 | 27,890 | 0.01% |
| Cayuga* | 37 | 136,938 | 0.03% |
| Auburn (City only)* | 34 | 396,954 | 0.10% |
| Chautauqua | 124 | 682,152 | 0.17% |
| Chemung | 93 | 1,230,140 | 0.30% |
| Chenango | 40 | 124,281 | 0.03% |
| Norwich (City only) | 22 | 51,090 | 0.01% |
| Clinton | 86 | 1,529,004 | 0.37% |
| Columbia | 53 | 233,609 | 0.06% |
| Cortland | 48 | 336,752 | 0.08% |
| Delaware | 47 | 154,072 | 0.04% |
| Dutchess | 169 | 4,805,175 | 1.17% |
| Erie* | 429 | 9,989,459 | 2.43% |
| Essex | 73 | 224,660 | 0.05% |
| Franklin* | 49 | 244,851 | 0.06% |
| Fulton | 29 | 124,334 | 0.03% |
| Gloversville (City only) | 26 | 79,067 | 0.02% |
| Johnstown (City only)* | 21 | 28,250 | 0.01% |
| Genesee | 37 | 137,257 | 0.03% |
| Batavia (City only) | 31 | 245,631 | 0.06% |
| Greene | 37 | 169,738 | 0.04% |
| Hamilton | 20 | 11,535 | 0.00% |
| Herkimer | 57 | 245,396 | 0.06% |
| Jefferson* | 87 | 734,701 | 0.18% |
| Lewis | 30 | 57,894 | 0.01% |
| Livingston* | 50 | 207,195 | 0.05% |
| Madison | 49 | 116,838 | 0.03% |
| Oneida (City only) | 31 | 240,780 | 0.06% |
| Monroe | 371 | 15,287,381 | 3.71% |
| Montgomery | 44 | 251,023 | 0.06% |
| Nassau | 553 | 82,777,695 | 20.10% |
| Niagara | 186 | 8,553,584 | 2.08% |
| Oneida* | 108 | 1,401,770 | 0.34% |
| Rome (City only)* | 38 | 440,970 | 0.11% |
| Sherrill (City only)* | 13 | 6,172 | 0.00% |
| Utica (City only)* | 46 | 230,942 | 0.06% |
| Onondaga* | 269 | \$10,268,916 | 2.49% |

Table 1: Reported Clothing Sales During One-Week Exemption by Taxing Jurisdiction

| Taxing Jurisdiction | Number of Vendors Reporting Clothing Sales During Exemption Week | Total Reported Sales of Clothing Reported During Exemption Week | Percentage of Statewide Clothing Sales During Exemption Week |
|--------------------------|--|---|--|
| Ontario | 91 | \$8,669,168 | 2.10% |
| Canandaigua (City only)* | 26 | 70,132 | 0.02% |
| Geneva (City only)* | 23 | 142,378 | 0.03% |
| Orange | 212 | 5,829,845 | 1.42% |
| Orleans | 36 | 191,232 | 0.05% |
| Oswego | 37 | 74,624 | 0.02% |
| Fulton (City only)* | 27 | 30,809 | 0.01% |
| Oswego (City only) | 25 | 280,928 | 0.07% |
| Otsego | 79 | 552,276 | 0.13% |
| Putnam | 49 | 558,254 | 0.14% |
| Rensselaer | 74 | 535,902 | 0.13% |
| Rockland | 163 | 8,222,868 | 2.00% |
| Saint Lawrence | 86 | 628,399 | 0.15% |
| Ogdensburg (City only) | 22 | 85,047 | 0.02% |
| Saratoga | 147 | 1,619,295 | 0.39% |
| Schenectady | 115 | 1,145,059 | 0.28% |
| Schoharie | 36 | 115,313 | 0.03% |
| Schuyler | 23 | 16,780 | 0.00% |
| Seneca | 66 | 4,691,030 | 1.14% |
| Steuben | 57 | 118,523 | 0.03% |
| Hornell (City only) | 24 | 184,098 | 0.04% |
| Corning (City only) | 37 | 92,465 | 0.02% |
| Suffolk | 449 | 23,712,220 | 5.76% |
| Sullivan | 73 | 988,599 | 0.24% |
| Tioga | 40 | 48,968 | 0.01% |
| Tompkins | 54 | 589,678 | 0.14% |
| Ithaca (City only) | 56 | 352,490 | 0.09% |
| Ulster | 115 | 1,732,561 | 0.42% |
| Warren | 92 | 3,697,199 | 0.90% |
| Glens Falls (City only) | 33 | 150,818 | 0.04% |
| Washington | 37 | 97,219 | 0.02% |
| Wayne | 58 | 251,871 | 0.06% |
| Westchester | 272 | 21,858,721 | 5.31% |
| Mount Vernon (City only) | 47 | 176,770 | 0.04% |
| New Rochelle (City only) | 37 | 254,212 | 0.06% |
| White Plains (City only) | 93 | 10,998,591 | 2.67% |
| Yonkers (City only) | 81 | 18,077,513 | 4.39% |
| Wyoming | 39 | 129,297 | 0.03% |
| Yates | 24 | 87,256 | 0.02% |
| New York City | 2,763 | \$127,107,785 | 30.86% |

*Shaded lines are taxing jurisdictions that did not opt for the local exemption.

Figure 1: Distribution By County of Statewide Clothing Sales
During the Exemption Week
(See Freelance Graphic File “Figures.pre”)

A comparison of the percentage of clothing sales taking place in each county during the exemption week to the county's percentage of estimated annual clothing sales highlights 10 counties whose portion of Statewide clothing sales increased compared to their portion of annual clothing sales. Those counties and the percentage increase in their portion of Statewide clothing sales are: Albany County (93 percent), Nassau County (84 percent), Niagara County (68 percent), Ontario County (308 percent), Putnam County (27 percent), Rockland County (16 percent), Seneca County (1800 percent)⁴, Sullivan County (26 percent), Warren County (58 percent) and Westchester County (97 percent). All other counties in the State as well as New York City experienced decreases or no change in their portion of Statewide clothing sales during the exemption week compared to estimated annual clothing sales.⁵

Factors that may have contributed to shifting sales patterns include drawing shoppers from bordering counties, neighboring states and Canada. Some shoppers may have also been drawn from New York City into surrounding counties.

The changes in clothing sales patterns among the counties may be the result of any number of factors. First, the counties showing increases may have attracted shoppers from bordering counties within the State. This is an especially plausible explanation in counties that border localities that did not opt to exempt clothing from the local portion of the sales tax during the exemption week. The counties experiencing increased portions of Statewide sales that border counties not opting for the local exemption include Seneca County, Ontario County and Niagara County.

The increase in some counties' portions of Statewide clothing sales may also indicate that the exemption drew shoppers into some counties from neighboring states or Canada. This may have occurred in the downstate metropolitan region (for example, in Rockland, Putnam and Westchester Counties). Outside of the New York Metropolitan area it also may explain higher than normal portions of sales in counties along the State's borders (for example, in Niagara and Sullivan Counties). Yet another explanation for the change in regional shopping patterns is that the exemption may have drawn shoppers from New York City into surrounding counties such as Nassau, Rockland and Westchester Counties. Finally, the sales figures could indicate that consumers in some counties simply had a greater demand for the exempt clothing than consumers in other counties. Unfortunately, based on tax return data, it is not possible to conclusively determine the reasons for the change in shopping patterns.

Table 2: Comparison of Reported Clothing Sales and Estimated Annual Clothing Sales by County

| County | Share of Estimated Annual Clothing Sales* | Share of Reported Clothing Sales During Exemption Week | Difference in Share | Percentage Change in Share |
|----------------|---|--|---------------------|----------------------------|
| New York State | 100.00% | 100.00% | 0.00 | |
| Albany | 2.72% | 5.25% | 2.53 | 93.01% |
| Allegany | 0.05% | 0.04% | (0.01) | (20.00)% |
| Broome | 1.02% | 0.82% | (0.20) | (19.61)% |
| Cattaraugus | 0.30% | 0.19% | (0.11) | (36.67)% |
| Cayuga** | 0.25% | 0.13% | (0.12) | (48.00)% |
| Chautauqua | 0.41% | 0.17% | (0.24) | (58.54)% |
| Chemung | 0.67% | 0.30% | (0.37) | (55.22)% |
| Chenango | 0.06% | 0.04% | (0.02) | (33.33)% |
| Clinton | 0.66% | 0.37% | (0.29) | (43.94)% |
| Columbia | 0.11% | 0.06% | (0.05) | (45.45)% |
| Cortland | 0.20% | 0.08% | (0.12) | (60.00)% |
| Delaware | 0.11% | 0.04% | (0.07) | (63.64)% |
| Dutchess | 1.27% | 1.17% | (0.10) | (7.87)% |
| Erie** | 4.95% | 2.43% | (2.52) | (50.91)% |
| Essex | 0.08% | 0.05% | (0.03) | (37.50)% |
| Franklin** | 0.13% | 0.06% | (0.07) | (53.85)% |
| Fulton** | 0.17% | 0.06% | (0.11) | (64.71)% |
| Genesee | 0.21% | 0.09% | (0.12) | (57.14)% |
| Greene | 0.09% | 0.04% | (0.05) | (55.56)% |
| Hamilton | 0.01% | 0.00% | (0.01) | (100.00)% |
| Herkimer | 0.09% | 0.06% | (0.03) | (33.33)% |
| Jefferson** | 0.52% | 0.18% | (0.34) | (65.38)% |
| Lewis | 0.02% | 0.01% | (0.01) | (50.00)% |
| Livingston** | 0.12% | 0.05% | (0.07) | (58.33)% |
| Madison | 0.12% | 0.09% | (0.03) | (25.00)% |
| Monroe | 3.83% | 3.71% | (0.12) | (3.13)% |
| Montgomery | 0.13% | 0.06% | (0.07) | (53.85)% |
| Nassau | 10.92% | 20.10% | 9.18 | 84.07% |
| Niagara | 1.24% | 2.08% | 0.84 | 67.74% |
| Oneida** | 1.24% | 0.50% | (0.74) | (59.68)% |
| Onondaga** | 2.76% | 2.49% | (0.27) | (9.78)% |
| Ontario** | 0.53% | 2.16% | 1.63 | 307.55% |
| Orange | 2.10% | 1.42% | (0.68) | (32.38)% |
| Orleans | 0.05% | 0.05% | 0.00 | 0.00% |
| Oswego** | 0.19% | 0.09% | (0.10) | (52.63)% |
| Otsego | 0.18% | 0.13% | (0.05) | (27.78)% |
| Putnam | 0.11% | 0.14% | 0.03 | 27.27% |
| Rensselaer | 0.25% | 0.13% | (0.12) | (48.00)% |

Table 2: Comparison of Reported Clothing Sales and Estimated Annual Clothing Sales by County

| County | Share of Estimated Annual Clothing Sales* | Share of Reported Clothing Sales During Exemption Week | Difference in Share | Percentage Change in Share |
|----------------|---|--|---------------------|----------------------------|
| Rockland | 1.73% | 2.00% | 0.27 | 15.61% |
| Saint Lawrence | 0.53% | 0.17% | (0.36) | (67.92)% |

Table 2: Comparison of Reported Clothing Sales and Estimated Annual Clothing Sales by County

| County | Share of Estimated Annual Clothing Sales* | Share of Reported Clothing Sales During Exemption Week | Difference in Share | Percentage Change in Share |
|---------------|---|--|---------------------|----------------------------|
| Saratoga | 0.82% | 0.39% | (0.43) | (52.44)% |
| Schenectady | 0.44% | 0.28% | (0.16) | (36.36)% |
| Schoharie | 0.03% | 0.03% | 0.00 | 0.00% |
| Schuyler | 0.06% | 0.00% | (0.06) | (100.00)% |
| Seneca | 0.06% | 1.14% | 1.08 | 1800.00% |
| Steuben | 0.20% | 0.10% | (0.10) | (50.00)% |
| Suffolk | 8.34% | 5.76% | (2.58) | (30.94)% |
| Sullivan | 0.19% | 0.24% | 0.05 | 26.32% |
| Tioga | 0.05% | 0.01% | (0.04) | (80.00)% |
| Tompkins | 0.36% | 0.23% | (0.13) | (36.11)% |
| Ulster | 0.57% | 0.42% | (0.15) | (26.32)% |
| Warren | 0.59% | 0.93% | 0.34 | 57.63% |
| Washington | 0.06% | 0.02% | (0.04) | (66.67)% |
| Wayne | 0.14% | 0.06% | (0.08) | (57.14)% |
| Westchester | 6.33% | 12.47% | 6.14 | 97.00% |
| Wyoming | 0.08% | 0.03% | (0.05) | (62.50)% |
| Yates | 0.02% | 0.02% | 0.00 | 0.00% |
| New York City | 41.53% | 30.86% | (10.67) | (25.69)% |
| Bronx | 2.56% | Not Available | N/A | N/A |
| Kings | 6.05% | Not Available | N/A | N/A |
| New York | 26.40% | Not Available | N/A | N/A |
| Queens | 4.96% | Not Available | N/A | N/A |
| Richmond | 1.56% | Not Available | N/A | N/A |

*Source: Demographics USA 1996 - County Edition, Market Statistics, Div. Bill Communications, 335 Park Avenue, New York, New York (1-800-685-7828)

**Shaded lines indicate that the county or one or more taxing jurisdictions within the county did not opt for the local exemption.

Figure 2: Percentage Change in County Portion of
Statewide Clothing Sales
(See Freelance Graphic “Figures.pre”)

One drawback of the data used for the above comparison is that the annual clothing sales in each county are estimated. As a verification of the results, a proxy for the “normal” level of clothing sales that took place in each county during the prior year was used.⁶ That proxy was the reported annual taxable sales of apparel vendors and the reported taxable sales of general merchandise vendors. As shown in Table 3 and Figure 3, with the exception of Putnam County, the results of that analysis were largely similar to the results of the analysis of estimated annual clothing sales.

Table 3: Comparison of Reported Clothing Sales and Annual Taxable Sales of General Merchandise & Apparel Stores by County

| County | Share of Taxable Sales General Merchandise & Apparel Store Sales* | Share of Reported Clothing Sales During Exemption Week | Difference in Share | Percentage Change in Share |
|----------------|---|--|------------------------|----------------------------------|
| New York State | 100.00% | 100.00% | 0.00 | |
| Albany | 2.79% | 5.25% | 2.46 | 88.17% |
| Allegany | 0.11% | 0.04% | (0.07) | (63.64)% |
| Broome | 1.40% | 0.82% | (0.58) | (41.43)% |
| Cattaraugus | 0.43% | 0.19% | (0.24) | (55.81)% |
| Cayuga** | 0.30% | 0.13% | (0.17) | (56.67)% |
| Chautauqua | 0.70% | 0.17% | (0.53) | (75.71)% |
| Chemung | 0.85% | 0.30% | (0.55) | (64.71)% |
| Chenango | 0.16% | 0.04% | (0.12) | (75.00)% |
| Clinton | 0.66% | 0.37% | (0.29) | (43.94)% |
| Columbia | 0.20% | 0.06% | (0.14) | (70.00)% |
| Cortland | 0.24% | 0.08% | (0.16) | (66.67)% |
| Delaware | 0.13% | 0.04% | (0.09) | (69.23)% |
| Dutchess | 1.58% | 1.17% | (0.41) | (25.95)% |
| Erie** | 5.05% | 2.43% | (2.62) | (51.88)% |
| Essex | 0.11% | 0.05% | (0.06) | (54.55)% |
| Franklin** | 0.14% | 0.06% | (0.08) | (57.14)% |
| Fulton** | 0.20% | 0.06% | (0.14) | (70.00)% |
| Genesee | 0.23% | 0.09% | (0.14) | (60.87)% |
| Greene | 0.08% | 0.04% | (0.04) | (50.00)% |
| Hamilton | 0.01% | 0.00% | (0.01) | (100.00)% |
| Herkimer | 0.14% | 0.06% | (0.08) | (57.14)% |
| Jefferson** | 0.74% | 0.18% | (0.56) | (75.68)% |
| Lewis | 0.04% | 0.01% | (0.03) | (75.00)% |
| Livingston** | 0.18% | 0.05% | (0.13) | (72.22)% |
| Madison | 0.18% | 0.09% | (0.09) | (50.00)% |
| Monroe | 3.78% | 3.71% | (0.07) | (1.85)% |
| Montgomery | 0.22% | 0.06% | (0.16) | (72.73)% |
| Nassau | 11.15% | 20.10% | 8.95 | 80.27% |
| Niagara | 1.35% | 2.08% | 0.73 | 54.07% |
| Oneida** | 1.38% | 0.50% | (0.88) | (63.77)% |
| Onondaga** | 2.94% | 2.49% | (0.45) | (15.31)% |
| Ontario** | 1.08% | 2.16% | 1.08 | 100.00% |
| Orange | 2.66% | 1.42% | (1.24) | (46.62)% |
| Orleans | 0.07% | 0.05% | (0.02) | (28.57)% |
| Oswego** | 0.36% | 0.09% | (0.27) | (75.00)% |
| Otsego | 0.29% | 0.13% | (0.16) | (55.17)% |
| Putnam | 0.14% | 0.14% | 0.00 | 0.00% |
| Rensselaer | 0.38% | 0.13% | (0.25) | (65.79)% |
| Rockland | 1.26% | 2.00% | 0.74 | 58.73% |
| Saint Lawrence | 0.55% | 0.17% | (0.38) | (69.09)% |
| Saratoga | 0.85% | 0.39% | (0.46) | (54.12)% |

Table 3: Comparison of Reported Clothing Sales and Annual Taxable Sales of General Merchandise & Apparel Stores by County

| County | Share of Taxable Sales General Merchandise & Apparel Store Sales* | Share of Reported Clothing Sales During Exemption Week | Difference in Share | Percentage Change in Share |
|---------------|---|--|------------------------|----------------------------------|
| Schenectady | 0.66% | 0.28% | (0.38) | (57.58)% |
| Schoharie | 0.16% | 0.03% | (0.13) | (81.25)% |
| Schuyler | 0.02% | 0.00% | (0.02) | (100.00)% |
| Seneca | 0.21% | 1.14% | 0.93 | 442.86% |
| Steuben | 0.32% | 0.10% | (0.22) | (68.75)% |
| Suffolk | 7.57% | 5.76% | (1.81) | (23.91)% |
| Sullivan | 0.15% | 0.24% | 0.09 | 60.00% |
| Tioga | 0.04% | 0.01% | (0.03) | (75.00)% |
| Tompkins | 0.42% | 0.23% | (0.19) | (45.24)% |
| Ulster | 0.76% | 0.42% | (0.34) | (44.74)% |
| Warren | 0.68% | 0.93% | 0.25 | 36.76% |
| Washington | 0.11% | 0.02% | (0.09) | (81.82)% |
| Wayne | 0.23% | 0.06% | (0.17) | (73.91)% |
| Westchester | 6.89% | 12.47% | 5.58 | 80.99% |
| Wyoming | 0.11% | 0.03% | (0.08) | (72.73)% |
| Yates | 0.04% | 0.02% | (0.02) | (50.00)% |
| New York City | 36.52% | 30.86% | (5.66) | (15.50)% |

Source: Demographics USA 1996 - County Edition, Market Statistics, Div. Bill Communications, 335 Park Avenue, New York, New York (1-800-685-7828)

*Taxable Sales & Purchases reported for the period from September 1995 through August 1996.

**Shaded lines indicate that the county or one or more taxing jurisdictions within the county did not opt for the local exemption.

Figure 3: Percentage Change in County Portion of
Statewide Clothing Sales
(See Freelance Graphic File “Figures.pre”)

Additional Sales Generated by the Exemption

Certainly, some clothing purchases during the exemption week were purchases that consumers would have made during that week even without the exemption. In addition, some portion of the \$412 million in sales reported during the exemption week were attributable to purchases that consumers simply shifted from prior or later weeks by delaying or accelerating clothing purchases to take advantage of the exemption. The balance are sales attributable to the “border effect” or the “price effect.” The border effect represents sales to residents and nonresidents that were diverted from stores or mail order retailers in other states. The price effect sales are sales that were spurred by the decrease in the after tax price of clothing.

To evaluate these effects, an estimation of what one would expect total Statewide clothing sales to be for a “typical” week in January 1997 was developed. It was estimated that, absent the temporary exemption, Statewide clothing sales for the third week in January would have been approximately \$238 million.⁷ The actual clothing sales for the exemption week, as reported by vendors, totaled \$412 million. Therefore, it appears that the actual amount of sales attributable to the exemption and the associated promotions run by retailers appears to be in the range of approximately \$174 million. Some portion of that \$174 million are sales that were shifted from prior or later weeks. The balance are sales that were actually generated by the exemption.

In order to determine whether the exemption generated a significant amount of additional sales or simply shifted sales from other weeks, the total reported sales of clothing retailers for the sales tax quarter in which the exemption took place were analyzed. First, sales for the sales tax quarter in which the exemption took place (sales tax quarter December 1996-February 1997) were compared to the comparable quarter in 1995-96. For purposes of this analysis the population of vendors examined was limited to businesses in the apparel and general merchandise sectors that indicated they sold clothing during the exemption week.⁸ It was expected that if the temporary exemption generated a significant amount of additional sales, sales for the quarter in which the exemption took place would be significantly higher than for the comparable quarter one year earlier.

As shown in Table 4, reported sales were only slightly higher in the quarter in which the exemption took place. Moreover, the sales were no higher than one would expect based on economic growth for the period.

Statewide, the increase in reported sales between the two comparable quarters was 2.9 percent. A comparison of the two quarters for New York City indicated an increase of 4.5 percent. In the taxing jurisdictions outside of New York City, reported sales increased by approximately 2.0 percent. The lack of extraordinary growth is especially noteworthy when one considers two factors unrelated to the sales tax exemption. The first is that the State experienced severe winter weather conditions which depressed sales in January 1996. In contrast, the weather in January 1997 was mild. Therefore, based only on the differences in weather one might expect to see an upswing in sales in the latter year. The other consideration is that, nationally, retail sales of clothing and footwear in the first quarter of 1997 increased by 5.7 percent over retail sales of those products for the first quarter of 1996.⁹ Therefore, it seems likely that most of the 2.9 percent increase in sales of clothing and general merchandise retailers may be part of the larger national trend and may not be attributable to the temporary exemption.

The lack of extraordinary growth in reported sales of clothing retailers, in spite of the exemption during 1997, may suggest that a significant amount of the clothing sales reported by vendors during the exemption week were simply sales that were diverted from other weeks in the sales tax quarter.¹⁰ Based on this analysis, it appears that much of the \$174 million in “additional” clothing sales during the exemption week were not new sales generated by the exemption but were sales that would normally have occurred during prior or later weeks in the sales tax quarter.

Table 4: Comparison of Quarterly Sales for Sales Tax Vendors Indicating Sales of Exempt Clothing 1/

| Comparison of Total Reported Sales for December - February Sales Tax Quarters (February '95 - December '96 and February '96 - December '97) | | | |
|--|-----------------|----------------------------|--------------------------------|
| | New York City | Other Taxing Jurisdictions | Total All Taxing Jurisdictions |
| Total Sales Sales Tax Qtr. - December '95 - February '96 | \$1,452,197,740 | \$2,831,148,210 | \$4,283,345,950 |
| Total Sales Sales Tax Qtr. - December '96 - February '97 | \$1,518,070,680 | \$2,888,016,568 | \$4,406,087,248 |
| Increase in Total Sales for Comparable Quarters - 1996 to 1997 | \$65,872,940 | \$56,868,358 | \$122,741,298 |
| Percentage Increase in Total Sales for Quarter | 4.54% | 2.01% | 2.87% |

1/ Limited to sales tax vendors in the apparel and general merchandise sectors that indicated they sold clothing during the temporary exemption period.

Amount of State and Local Tax Reduction

Any change, such as the temporary exemption, that generates an increase in economic activity will generate some offsetting increases in other taxes. However, it appears that those offsets are minimal for the temporary exemption.¹¹ Therefore, the temporary exemption should be evaluated in the context of any other tax cut--as tax relief that benefitted the State's citizens and made New York businesses more competitive. It should not be viewed as a tax cut that was intended to be self financing by virtue of the increase in economic activity it generated.

The actual reported State sales tax reduction during the exemption week was \$16.5 million. The total reported local sales tax reduction was \$15.5 million.

At the time the 1996-97 budget was adopted, the amount of the State sales tax reduction that would result from the one-week exemption was estimated at \$20 million assuming all local jurisdictions opted to offer the exemption. A similar tax cut was forecasted from the local taxing jurisdictions if all opted to adopt the temporary exemption. Among the primary factors considered in developing the estimates was the seasonal nature of clothing sales and the probable behavioral effects of a temporary exemption. As shown in Table 5, the actual reported State sales tax reduction on those sales totaled approximately \$16.5 million.

Table 5 also shows the amount of the reported reduction in local sales taxes. Six counties and eight cities did not opt to participate in the exemption. The total reported reduction in local taxes for the counties and cities that did participate was approximately \$15.5 million. Of that total, the largest portion was from New York City. The reported reduction in New York City sales tax resulting from the temporary exemption was approximately \$5.4 million. The other taxing jurisdictions affording consumers the largest sales tax reductions included Nassau County (\$3.7 million), Suffolk County (\$1 million), Albany County (\$864,000), City of Yonkers (\$768,000), and Westchester County (\$601,000).

Table 5: Amount of State and Local Tax Reduction by Taxing Jurisdiction

| Taxing Jurisdiction | Reported Reduction in State Sales Tax | Reported Reduction in Local Sales Taxes | Reported Reduction in State & Local Sales Taxes |
|--------------------------|--|--|---|
| Total All Jurisdictions | \$16,474,685 | \$15,521,768 | \$31,996,454 |
| Albany | 864,340 | 864,340 | 1,728,679 |
| Allegany | 6,408 | 6,408 | 12,816 |
| Broome | 135,783 | 135,783 | 271,565 |
| Cattaraugus | 18,191 | 18,191 | 36,382 |
| Olean (City only) | 11,953 | 11,953 | 23,905 |
| Salamanca (City only) | 1,116 | 1,116 | 2,231 |
| Cayuga** | 5,478 | N/A | 5,478 |
| Auburn (City only)** | 15,878 | N/A | 15,878 |
| Chautauqua | 27,286 | 20,465 | 47,751 |
| Chemung | 49,206 | 36,904 | 86,110 |
| Chenango | 4,971 | 3,728 | 8,700 |
| Norwich (City only) | 2,044 | 1,533 | 3,576 |
| Clinton | 61,160 | 45,870 | 107,030 |
| Columbia | 9,344 | 9,344 | 18,689 |
| Cortland | 13,470 | 13,470 | 26,940 |
| Delaware | 6,163 | 3,081 | 9,244 |
| Dutchess | 192,207 | 156,168 | 348,375 |
| Erie** | 399,578 | N/A | 399,578 |
| Essex | 8,986 | 6,740 | 15,726 |
| Franklin** | 9,794 | N/A | 9,794 |
| Fulton | 4,973 | 3,730 | 8,703 |
| Gloversville (City only) | 3,163 | 2,372 | 5,535 |
| Johnstown (City only)** | 1,130 | 424 * | 1,554 |
| Genesee | 5,490 | 5,490 | 10,981 |
| Batavia (City only) | 9,825 | 9,825 | 19,650 |
| Greene | 6,790 | 6,790 | 13,579 |
| Hamilton | 461 | 346 | 807 |
| Herkimer | 9,816 | 9,816 | 19,632 |
| Jefferson** | 29,388 | N/A | 29,388 |
| Lewis | 2,316 | 1,737 | 4,053 |
| Livingston** | 8,288 | N/A | 8,288 |
| Madison | 4,674 | 3,505 | 8,179 |
| Oneida (City only) | 9,631 | 7,223 | 16,855 |
| Monroe | 611,495 | 611,495 | 1,222,990 |
| Montgomery | 10,041 | 7,531 | 17,572 |
| Nassau | 3,311,108 | 3,724,996 | 7,036,104 |
| Niagara | 342,143 | 256,608 | 598,751 |
| Oneida** | 56,071 | N/A | 56,071 |
| Rome (City only)** | 17,639 | N/A | 17,639 |
| Sherrill (City only)** | 247 | N/A | 247 |
| Utica (City only)** | 9,238 | N/A | 9,238 |

Table 5: Amount of State and Local Tax Reduction by Taxing Jurisdiction

| Taxing Jurisdiction | Reported Reduction in State Sales Tax | Reported Reduction in Local Sales Taxes | Reported Reduction in State & Local Sales Taxes |
|---------------------|--|--|---|
| Onondaga** | \$410,757 | N/A | \$410,757 |

Table 5: Amount of State and Local Tax Reduction by Taxing Jurisdiction

| Taxing Jurisdiction | Reported Reduction in State Sales Tax | Reported Reduction in Local Sales Taxes | Reported Reduction in State & Local Sales Taxes |
|---------------------------|---------------------------------------|---|---|
| Ontario | \$346,767 | \$260,075 | \$606,842 |
| Canandaigua (City only)** | 2,805 | 1,052 * | 3,857 |
| Geneva (City only)** | 5,695 | 2,136 * | 7,831 |
| Orange | 233,194 | 189,470 | 422,664 |
| Orleans | 7,649 | 7,649 | 15,299 |
| Oswego | 2,985 | 0 | 2,985 |
| Fulton (City only)** | 1,232 | N/A | 1,232 |
| Oswego (City only) | 11,237 | 8,428 | 19,665 |
| Otsego | 22,091 | 16,568 | 38,659 |
| Putnam | 22,330 | 18,143 | 40,473 |
| Rensselaer | 21,436 | 21,436 | 42,872 |
| Rockland | 328,915 | 267,243 | 596,158 |
| Saint Lawrence | 25,136 | 18,852 | 43,988 |
| Ogdensburg (City only) | 3,402 | 2,551 | 5,953 |
| Saratoga | 64,772 | 48,579 | 113,351 |
| Schenectady | 45,802 | 34,352 | 80,154 |
| Schoharie | 4,613 | 3,459 | 8,072 |
| Schuyler | 671 | 503 | 1,175 |
| Seneca | 187,641 | 140,731 | 328,372 |
| Steuben | 4,741 | 4,741 | 9,482 |
| Hornell (City only) | 7,364 | 7,364 | 14,728 |
| Corning (City only) | 3,699 | 3,699 | 7,397 |
| Suffolk | 948,489 | 1,007,769 | 1,956,258 |
| Sullivan | 39,544 | 29,658 | 69,202 |
| Tioga | 1,959 | 1,714 | 3,673 |
| Tompkins | 23,587 | 23,587 | 47,174 |
| Ithaca (City only) | 14,100 | 14,100 | 28,199 |
| Ulster | 69,302 | 64,971 | 134,273 |
| Warren | 147,888 | 110,916 | 258,804 |
| Glens Falls (City only) | 6,033 | 4,525 | 10,557 |
| Washington | 3,889 | 2,917 | 6,805 |
| Wayne | 10,075 | 7,556 | 17,631 |
| Westchester | 874,349 | 601,115 | 1,475,464 |
| Mount Vernon (City only) | 7,071 | 7,513 | 14,584 |
| New Rochelle (City only) | 10,168 | 10,804 | 20,972 |
| White Plains (City only) | 439,944 | 412,447 | 852,391 |
| Yonkers (City only) | 723,101 | 768,294 | 1,491,395 |
| Wyoming | 5,172 | 5,172 | 10,344 |
| Yates | 3,490 | 2,618 | 6,108 |
| New York City (MAC) | \$5,084,311 | \$5,402,081 | \$10,486,392 |

*Reduction within the city resulting from the county exemption.

**Shaded lines are taxing jurisdictions that did not opt for the local exemption.

Endnotes

1. Data regarding sales of clothing during the exemption week are based on a special schedule (Schedule H) required to be filed by all vendors selling clothing during the week. However, it is likely that some vendors selling clothing during the exemption period did not file the Schedule H. To analyze whether non-filers of the schedule represented significant underreporting of clothing sales we merged a list of vendors filing a Schedule H with our complete sales tax vendor file. We then compared (for those in the apparel and general merchandise industries) the total taxable sales of those with a Schedule H to the total taxable sales for the industries as a whole. We found that although some vendors in these industries did not file a Schedule H, those that did file the schedule accounted for the vast majority of the total taxable sales in the apparel and general merchandise industry.
2. Estimated clothing sales by county are based on data published in Demographics USA 1996 - County Edition by Market Statistics, 355 Park Avenue South, New York, New York.
3. The 12 month period used for this analysis was September, 1995 through August, 1996.
4. Most of this large increase may be attributable to the opening of the Finger Lakes Mall in Seneca County in the Fall of 1996. In the base period used for comparative purposes, many of the large general merchandise and apparel stores that were doing business during the exemption week were not yet open.
5. Because estimates of annual clothing sales are not available below the county level it is not possible to provide this type of comparison for taxing jurisdictions other than counties.
6. Because clothing sales data was derived from a special schedule completed by vendors only for the temporary exemption period, comparable data is not available for periods when the exemption was not in place. As a proxy for clothing sales without the exemption we used reported taxable sales of apparel stores and reported taxable sales of general merchandise stores. According to the 1992 U.S. Census of Retail Trade, those two types of stores combined account for approximately 95 percent of retail sales of clothing.
7. The sales for the week are based on one-fourth of January sales as estimated in Demographics USA 1997 - County Edition 1997 by Market Statistics. For purposes of the estimate it was assumed that clothing sales during the month of January are evenly distributed throughout the month.
8. According to the 1992 U.S. Census of Retail Trade, apparel and general merchandise stores account for approximately 95 percent of retail sales of clothing. In addition, the population was further limited to vendors that indicated on their quarterly return that they sold clothing during the

exemption week. By limiting the population of vendors examined, the analysis of the change in taxable sales was focused on businesses whose sales were most likely to be affected by the temporary exemption.

9. Source: Survey of Current Business, Table 2.2, May 1997.
10. For comparative purposes we also examined the growth in sales among all other sales tax vendors in the retail sector for the same time periods. That analysis showed that the growth in sales between the comparable quarters was 11.4 percent Statewide, 16.8 percent in New York City and 8.6 percent in the taxing jurisdictions outside of New York City.
11. Examples of potential offsetting revenue gains include: taxes on increased profits from clothing retailers; taxes on increased profits from other stores where consumers spent their increased disposable income and taxes on additional income of store employees that worked additional hours because of the exemption.

Consumer and Retailer Views on the Clothing Exemption

In mandating this report, the Governor and the Legislature directed the Department to evaluate the effect of the exemption on economic competition, cross border shopping and mail order shopping.

Three separate surveys were used to gauge the effect of the exemption on these types of issues. The following summarizes the results of the surveys by type of issue.¹ Appendixes B and C discuss the results of the surveys in more detail.

Cross Border Shopping

Nearly 30 percent of residents indicated that they shop out of state to avoid paying sales tax.

The surveys appear to confirm that cross border shopping is very common among New York State residents. Sixty-six percent of the resident respondents indicated that they purchased some clothing from out-of-state retailers during the prior year. Clothing purchased out of state represented approximately 16 percent of their annual clothing purchases. Among the resident respondents that indicated a reason for shopping out of state, the most frequently indicated reason was to avoid paying sales tax (30 percent of respondents).

Retailers were also asked to gauge the effect of the temporary exemption on sales to residents of bordering states. The largest group of respondents to this question (41 percent) indicated that the exemption did not generate any sales to residents of bordering states. An additional 23 percent of the respondents to this question indicated that less than 10 percent of the sales they made because of the exemption were to residents of bordering states.

Mail Order Shopping

Nearly 22 percent indicated that avoiding the sales tax was one of

The survey indicated that mail order shopping is also very common among New York residents. Fifty-one percent of the resident survey respondents indicated that, in the previous year, they purchased clothing from mail order retailers that do not collect New York State sales tax. Mail order purchases as a percentage of their prior year's clothing purchases totaled approximately 14 percent. Among the resident

their reasons for shopping by mail.

respondents that indicated a reason for shopping by mail order, 22 percent indicated that one of their reasons was to avoid the sales tax.

Effect of the
Temporary
Exemption on
Clothing Purchases

Among the survey respondents that answered the question regarding the effect of the temporary exemption, 63 percent indicated that the exemption affected their clothing purchases. Factoring in resident households that did not increase purchases because of the exemption, the average value of increased purchases by resident households responding to the survey was approximately \$180 per household.

The survey of retailers indicated that sales for the one week were dramatically higher than for the comparable week in the prior year. The largest portion of retailers responding to this question (23 percent) indicated that their sales of clothing for the week increased by 20-50 percent. Among the retailers indicating an increase, the average increase in sales of clothing and footwear over the comparable week last year was approximately 41 percent. Among retailers that sell primarily clothing and footwear and that indicated an increase in sales during the exemption week, the average increase was approximately 51 percent.

A very large percentage of retailers responding to the survey (85 percent) also indicated that their sales of clothing and footwear for the month of January 1997 were higher than their sales for January 1996. Among retailers indicating an increase, total sales for January 1997 exceeded sales for January 1996 by 26 percent. Curiously, this response to the survey does not appear to correspond to the tax return results for the sales tax quarter of December 1996 - February 1997. As noted earlier, those tax returns indicate that sales for the quarter were relatively flat.

Views on a
Permanent
Exemption

Among resident respondents, more than 83 percent indicated that they would increase their spending on clothing in New York if clothing were exempt from tax.

Among the resident respondents, more than 83 percent indicated that they would increase their spending on clothing in New York if clothing were exempt from tax. In response to how a permanent exemption would affect other spending the highest percentage (more than 44 percent) indicated that it would decrease their clothing purchases in other states. In addition, 29 percent of respondents indicated that a permanent exemption would decrease their mail order clothing purchases. Among the survey respondents from bordering states, more than 78 percent indicated that they would increase their spending on clothing in New York if clothing were exempt from the sales tax.

Retailers were also asked for their opinion as to whether the sales tax adversely affects their sales of clothing. Sixty-eight percent of retailers answering the question felt that it does adversely affect their clothing sales. Ninety-three percent of retailers answering the question regarding the desirability of a permanent exemption indicated that they favor such an exemption.

Views on Temporary Exemptions

Among retailers responding to the survey, 75 percent indicated that they favor enacting the one week exemption annually.

Retailers were asked for their views on repeating the temporary exemption. Of the respondents that answered the question, a clear majority (75 percent) indicated that they favor enacting the one week exemption annually. Retailers were also asked to indicate their preference for a time of year to hold the temporary exemption. The largest portion of retailers answering the question indicated that the post-Christmas period is preferable (29 percent). An almost equal number indicated that it should be offered during the Christmas shopping season and 20 percent indicated that it should be held during the “back to school” shopping season.

Endnotes

1. Unless otherwise stated, all of the percentages cited in this discussion are based on the number of respondents answering each particular question.

The Effect of Tax Differentials on Cross Border Sales

Economic Studies

In addition to the analysis of tax return data and survey results a number of empirical economic studies regarding the effect of tax differentials on cross border sales were reviewed. Generally, the studies indicate that because the decision of where to buy clothing depends on many factors in addition to price (e.g., quality, selection, shopping habits, convenience, etc.), it is difficult to state conclusively the extent to which the tax differential affects cross border sales.¹

The studies reviewed were generally of two types. One type looks at the effect of tax differentials on border county sales across state jurisdictions. A second type looks at the effect of such differentials between cities and surrounding suburban areas. The empirical studies of both types indicate that sales tax differentials have a statistically significant impact on cross border sales.² The estimated impacts range from a two percent to a seven percent increase in per capita retail sales for the lower tax jurisdiction resulting from each one percentage point increase in the sales tax rate differential between the higher and lower tax jurisdictions. The studies also generally find that this impact is limited to counties immediately bordering the other state--not interior counties.³ This finding reflects the increasing transportation and time costs as the travel distance to the lower tax jurisdiction increases--which tends to negate the tax saving on retail purchases.

While the studies examining overall sales consistently find that tax differentials matter, the findings are not consistent when the examination looks at individual commodities (e.g., clothing, convenience goods). For example, Fox (1986) and Levin (1966) find that apparel sales are impacted by border tax differentials. Similarly, Mikesell (1971) finds that sales by “shopping good stores” (which include apparel) are also impacted by these tax differentials. Conversely, Fisher (1980) and Brown (1990) find that per capita apparel sales are not influenced by these border tax differentials⁴

In general, however, the literature suggests that the border tax differentials are much more influential for shopping goods (e.g., apparel, furniture, appliances) than for convenience type goods (eating and drinking places, drug stores and “Kwik-marts”). For example, Mikesell (1997, p.836) summarizes the literature with the following: “Sales of convenience goods stores... seem to be little influenced, presumably because features other than price (location, habit, access) determine where people make purchases. On the other hand, sales of shopping goods where ticket prices can be high and customers are likely to shop for prices, are lower in areas with higher tax rates.”

Endnotes

1. In Sales Taxation - State and Local Structure and Administration John F. Due and John L. Mikesell summarized their review of state experience and empirical studies in three conclusions: The extent of the border problem has been reduced by the spread of the sales tax to almost all states. To find an area in which sales tax can be entirely avoided is difficult. Any state, however, that raises its sales tax rate can still expect some influence on sales as favorable tax rate differentials are reduced and unfavorable rate differentials are created and widened. The magnitude of the problem depends on the border situation of the state. The problem is aggravated when a substantial population is near the border, and the principal shopping center for the area is across the state line in the lower tax area. If the principal shopping center is in the higher tax area, there is less difficulty. The problem for states reaches its extreme form in cases where an urban area straddles the border and part of the business district is in each state. Not only can sales loss be substantial but tax administration, retailers, and consumers face difficult problems in the collection and enforcement of sales taxes on either side of the border.
2. See Mikesell & Zorn (1986), Fox (1986), Walsh & Jones (1988), Fisher (1980), Levin (1966), Brown (1990), Mikesell (1970), Mikesell (1971), Hamovitch (1966).
3. See, for example, Walsh and Jones (1988) and Mikesell (1971).
4. While the authors find that either the tax differential variable is both improperly signed and statistically insignificant (Brown) or just statistically insignificant (Fisher), there may be mitigating factors which influence these results. In the Brown study, the state of Washington allows a sales tax exemption for purchases by residents of certain other states and Canadian provinces. In the Fisher study, the interstate tax differential for apparel between Washington D.C. and neighboring states may not have been large enough to overcome the transportation costs in getting to these other jurisdictions.

