



 THE UNIVERSITY OF IOWA

Sales Tax and Clothing Expenditures

The sales tax is a significant source of revenue for Iowa. In fiscal year 2005, the state generated \$1.95 billion in sales tax net revenue. This was the second largest source of revenue for Iowa, trailing only individual income tax net revenue at \$2.34 billion.¹ Despite the importance of the sales tax to the state's budget, the sales tax is also regressive, meaning it takes a larger percentage of income from poorer Iowans than it does from wealthier Iowans. Therefore, some people have criticized the sales tax as unfairly impacting low-income families. This I-CAN report examines what some states have done to minimize the sales tax burden on low-income families. It focuses primarily on tax exemptions on clothing.²

Permanent Sales Tax Exemption on Clothing

Seven states have permanently exempted clothing purchases from the sales tax to minimize the tax burden on low-income individuals. Figure 1 lists these states and summarizes what clothing qualifies.

¹ "2005 Annual Report." Iowa Department of Revenue. 28 Nov. 2005.
<<http://www.state.ia.us/tax/educate/0578508.pdf>>.

² Alaska, Delaware, Montana, New Hampshire, and Oregon have no sales tax.

Figure 1: States with Permanent Sales Tax Exemptions on Clothing³

	Amount Exempted
Connecticut	Only clothing items <\$50
Massachusetts	Only clothing items <\$175
Minnesota	All clothing items
New Jersey	All clothing items
Pennsylvania	All clothing items
Rhode Island	All clothing items
Vermont	Only clothing items <\$110

Temporary Sales Tax Exemptions on Clothing

In addition to the seven states that have permanently exempted clothing from the sales tax, 13 states and the District of Columbia have established annual, temporary sales tax exemptions, known as tax free holidays, in which items such as clothing are exempted from the sales tax. These temporary exemptions are routinely held during the “back to school” periods of late July and early August. Figure 2 lists the states that had a temporary sales tax exemption applicable to clothing purchases in 2006, the length in days of each exemption, and what clothing is qualified for the exemption.

Figure 2: States with Temporary Sales Tax Exemptions on Clothing⁴

	Amount Exempted	Length in Days
Alabama	Items <\$100	3
Connecticut	Items <\$300	7
D.C.	Items <\$100	9
Florida	Items <\$50	9
Georgia	Items <\$100	4
Iowa	Items <\$100	2
Maryland	Items <\$100	5
Missouri	Items <\$100	3
New Mexico	Items <\$100	3
North Carolina	Items <\$100	3
South Carolina	All clothing	3
Tennessee	Items <\$100	3
Texas	Items <\$100	3
Virginia	Items <\$100	3

³ Information compiled from each state’s revenue department.

⁴ “State Tax Holidays: Tax Holidays Return to Favor.” Federation of Tax Administrators. October 2006. http://www.taxadmin.org/fta/rate/sales_holiday.html.

Sales Tax Exemptions on Other “Everyday” Needs

Other sales tax exemptions specifically intended to relieve the burden for low-income individuals are exemptions for unprepared food and prescription drugs. Twenty-nine states have eliminated and five states have decreased their sales tax on unprepared food. Only Illinois has a sales tax on prescription drugs (1%).⁵

This report was prepared in November, 2006 by the Iowa Civic Analysis Network (I-CAN), a non-partisan public policy undergraduate research group at the University of Iowa. For additional research on this or other issues, please visit our website at <http://www.uiowa.edu/~ican> or contact us at studorg-i-can@uiowa.edu

⁵ Federation of Tax Administrators. “State Sales Tax Rates.” 1 Jan. 2006. <<http://www.taxadmin.org/FTA/rate/sales.html>>.