Can Tax Holiday Stimulate Durable Goods Consumption? Evidence from China’s Auto Market*

Jianjun Li†  Xuan Wang‡

July 10, 2019

Abstract

The government can leverage tax tools to encourage spending in favored areas and timing. Shaping consumers purchase on durable goods is especially crucial during business cycles and correcting negative externalities. But we have little evidence on how effective these policies are. This paper is going to address this question by evaluating tax holidays in China auto market: temporary partial tax exemptions for the purchase of smaller cars whose displacement is equal or smaller than 1.6L. We show the quantity effect of tax holidays using national wide monthly sales data from the year 2005-2017 and a city level weekly sale data from Jan 2014 to April 2018. We found that 1) one percentage point sales tax decrease will increase the total sales of a targeted small car by around 15% and decrease sales of substitutes by 14% and the total additional spending is about 10 million dollars. 2) strong pattern of timing effect 8.9% is reversed. 3) We also estimate for the impact on the economy through production network and the implications for the environment.

*Please contact the authors for the draft.
†Southwest School of Economics and Finance
‡Corresponding author, xnwang@umich.edu, University of Michigan