

## DEPARTMENT OF TAXATION 2001 Fiscal Impact Statement

1. Patron: Day

3. Committee: House Finance

4. Title: Retail Sales and Use Tax:  
Temporary Exemption for  
Clothing, Footwear, and Computer  
Products

2. Bill No. HB 2252

House of Origin:

X Introduced

       Substitute

       Engrossed

Second House:

       In Committee

       Substitute

       Enrolled

### 5. Summary/Purpose:

This bill would provide a temporary exemption from the state sales and use tax for certain items of tangible personal property. The exemption would occur on an annual basis, beginning in 2001, and would be in effect for a seven-day period beginning September 1 and continuing through September 7. The exemption would apply on a per item basis to:

- clothing and footwear costing less than \$500,
- computer systems costing less than \$1,500, and
- computers, computer hardware, or computer software costing less than \$500.

The bill defines the qualifying items and requires the Department of Taxation to promulgate regulations implementing the temporary exemption by August 15, 2001.

The bill would not affect the imposition of the local sales and use tax.

### 6. Fiscal Impact Estimates are: Tentative. (See Line 8.)

#### 6a. Expenditure Impact: (See Line 8).

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$74,400	GF
2002-03	\$74,400	GF

**6b. Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2001-02	(\$8.6 million)	N+F
2002-03	(\$10.0 million)	N+F

**7. Budget amendment necessary:** Yes.

Page 1, Revenue estimates.

Item 279, Department of Taxation

**8. Fiscal implications:**

Expenditure Impact

This bill would result in administrative costs to the department of \$74,400 in fiscal year 2002 and beyond. These costs are associated with personnel, printing, and postage charges to educate dealers about the provisions of this bill.

Revenue Impact

This bill would affect: (1) revenues dedicated to the General Fund for unrestricted use by the Commonwealth, (2) revenues returned to the localities for educational purposes, and (3) the Transportation Trust Fund revenues. This bill would not affect the 1% local option sales tax revenues.

The negative revenue impact for this bill is estimated to be \$8.6 million in fiscal year 2002 and \$10.0 million in fiscal year 2003. The revenue estimate incorporates data from the U.S. Census and taxable sales reported to the department. The Census data is organized by merchandise line sales, which takes into account sales of a given type of merchandise regardless of store type, i.e., sales in department stores are counted, as well as sales at specialty clothing and footwear stores. The data from both sources is grown into the future for the appropriate number of years using the sales and use tax collections historic and forecasted growth rates.

The value restrictions provided in the bill are estimated to provide no significant limitation in computing the revenue estimates.

Additionally, the estimates assume a 63% increase in sales attributable to the temporary exemption. This percentage represents an average of the increase in sales for New York, Pennsylvania, and Iowa (which are other states with "sales tax holiday")

legislation). The experience of New York suggests that the majority of the increase is attributable to taxpayers shifting their purchases into the “tax-free” time period in order to take advantage of the exemption. New York compared sales occurring in the quarters of the temporary exemptions. While sales increased during a “tax-free” time period, sales did not increase over the period of the quarter when other factors, such as growth in sales nationally, were taken into consideration.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary:** None.

**11. Other comments:**

This bill would provide a once-a year exemption from the state sales and use tax for certain items of tangible personal property. Beginning in 2001, the exemption would be effective from September 1 through September 7. The dates of the temporary exemption suggest that this bill is intended to primarily benefit purchasers of back-to-school items. The exemption would apply to the qualifying items when purchased by individuals and businesses.

The bill defines the qualifying items to include the following.

**“Clothing and footwear”** – any article of wearing apparel to be worn by human beings including fabric, thread, yarn, buttons, snaps, hooks, zippers and like items that are consumed to make or repair such clothing. The definition does not include watches, jewelry, handbags handkerchiefs, umbrellas, scarves, ties, headbands, belt buckles, costumes, or rented formal wear.

**“Computer”** – an internally programmed and automatic device that performs data processing.

**“Computer hardware”** – computer equipment and related peripheral devices, including, but not limited to, monitors, printers, modems, and external storage devices.

**“Computer software”** – a set of computer programs, procedures, and associated documentation concerned with the operation of a computer system.

**“Computer system”** – a set of related, whether connected or unconnected, computer hardware and computer software.

This bill would not affect the imposition of the local sales and use tax. Therefore, purchasers would pay a reduced sales and use tax of 1% on their purchases of clothing, footwear, and computer products during the exemption period.

### **Impact on Dealers**

Dealers who make sales of tangible personal property would be required to reprogram their computerized cash registers for a seven-day period to account for the temporary exemption. Smaller retailers with less sophisticated systems may not be able to program their registers to accommodate the temporary exemption. Additionally, retailers may incur significant expenses for hiring and training staff to accommodate the temporary exemption.

### **Other States**

The other states that provide or have recently provided a temporary exemption from the sales and use tax are New York, Florida, Texas, Connecticut, South Carolina, Pennsylvania, Iowa, Maryland, and the District of Columbia.

New York: New York provided a temporary exemption for clothing and footwear for seven days each in January and September, over a period of three years. The exemption applied to qualifying items costing \$500 or less, except in one instance the exemption applied to items costing \$100 or less. As of March 1, 2000, New York implemented a permanent year round exemption for clothing and footwear costing less than \$110 per item.

Florida: Florida provides a temporary exemption for clothing, footwear, and accessories. Initially, the exemption applied to qualifying items costing \$50 or less and was effective for seven days (August 15-21, 1998). For 1999 and 2000, the time period was extended to nine days and the cost limitation increased to \$100. The exemption does not apply to sales of the qualifying items at theme parks, entertainment complexes, public lodging establishments, and airports.

Texas: Beginning in 1999, Texas provides a temporary exemption for clothing and footwear costing \$100 or less per item. The exemption is effective during the first weekend in August and occurs annually.

Connecticut: Connecticut provides a permanent exemption for clothing and footwear costing \$75 or less. In order to take advantage of the "sales tax holiday" idea, Connecticut opted to expand its exemption in 2000 to items costing \$300 or less. The expanded exemption is provided annually for seven days in August.

Pennsylvania: Pennsylvania also provides a permanent exemption for clothing and footwear and chose a different approach by providing a one-time temporary exemption for computer products for personal use. The exemption was effective for eight days each in February and August of 2000.

South Carolina: South Carolina provides a much broader temporary exemption than the other states offering such exemptions. The exemption applies to “back-to- school” items and there is no price limitation. Beginning in 2000, South Carolina provides a three-day temporary exemption that occurs on an annual basis.

Iowa: Effective in 2000, Iowa provided a temporary exemption for clothing and footwear costing \$100 or less per item. The exemption was a one-time event effective for two days in August.

Maryland: The Maryland legislature approved a one-time temporary exemption effective for seven days in August 2001. The exemption will apply to clothing and footwear priced at \$100 or less.

District of Columbia: The District recently adopted a one-time sales tax holiday effective for ten days in August 2001. The temporary exemption will apply to school supplies and clothing priced at \$100 or less. The sales tax holiday is contingent upon revenue growth projections to be certified in early 2001.

#### Other Legislation

The following bills would provide a once-a-year exemption for certain qualifying items such as school supplies, clothing, footwear, and computer products: HB 2511 and SB 1255 (identical bills); and SB 1310. HB 2251 would provide a once-a-year exemption for any item or article of tangible personal property.

cc: Secretary of Finance

**Date: 01/17/01**

