

**DEPARTMENT OF TAXATION  
2002 Fiscal Impact Statement**

**1. Patron**    Byron

**3. Committee**    House Finance

**4. Title**    Retail Sales and Use Tax: Exempt Official  
Flags of the U.S., Virginia, and Local  
Governments

**2. Bill Number**    HB 567

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

**5. Summary/Purpose:**

This bill would exempt from the sales and use tax all sales of official flags of the United States, the Commonwealth of Virginia, or of any county, city or town.

The effective date of this bill is not specified.

**6. Fiscal Impact Estimates are:** Not available. (See Line 8.)

**7. Budget amendment necessary:** No.

**8. Fiscal implications:**

This bill would result in minimal forms revision and taxpayer education expenses for the department.

This bill would have a negative impact on General Fund, Transportation Trust Fund, and local revenues. This impact cannot be ascertained as the volume of official flags sold in Virginia in any given year is not known.

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

Department of Taxation

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

**11. Other comments:**

Currently, Code of Virginia § 58.1-609.1(7) provides an exemption for official flags when sold by a government agency. This bill would broaden the existing exemption by making all retail sales of official flags would be exempt.

The term “flag” is not defined in the bill or in the Retail Sales and Use Tax Act. The term “flag” is defined in the Uniform Flag Act, Code of Virginia § 18.2-486, to include “any flag, ... or copy, picture or representation thereof, made of any substance or represented or produced thereon, and of any size, evidently purporting to be such flag ... of the United States, or of this Commonwealth, . . .” The Department of Taxation could administer the exemption based on this broad definition and extend a similar definition to the flags of any county, city, or town.

Generally, retailers must charge the tax on all sales of tangible personal property. Under this bill, one class of property (official flags) would not be subject to the tax. Retailers who sell official flags and use automated cash registers would incur expenses to reprogram their cash registers.

cc : Secretary of Finance

Date: 01/15/02/GRM

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