

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Miller, K.G.

2. **Bill Number** SB 742

3. **Committee** House Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax Exemptions:
Extends Sunset Dates for Medical-Related
and Educational Exemptions; Reinstates
Exemption for Printed Materials; Creates
New Exemption for Nonprofit Museum and
Gardens

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would extend to July 1, 2004, the sunset dates for certain medical-related (§ 58.1-609.7) and educational (§ 58.1-609.4) retail sales and use tax exemptions for various nonprofit organizations. The exemptions are scheduled to expire July 1, 2003.

This bill would reinstate the retail sales and use tax exemption for printed materials purchased by an advertising business from a Virginia printer for distribution outside Virginia. The exemption would include newspaper supplements purchased by an advertising business for placement in in-state or out-of-state publications. The exemption would be effective beginning July 1, 2003, with a sunset date of July 1, 2004.

This bill would create a new sales and use tax exemption for tangible personal property purchased by a nonprofit corporation operating as a museum and gardens and organized to (1) promote the appreciation of the fine arts; (2) establish, own, maintain, and operate an arts center; (3) display, sell, purchase, and own articles of art; (4) support the arts in the local school system; and (5) encourage local artists' participation in its programs. The exemption would expire July 1, 2004.

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

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

8. **Fiscal implications:**

Extension of Medical-Related and Educational Exemptions

The value of the medical-related exemptions that would be extended by this bill is estimated to be \$62.1 million (state: \$48.0 million; local: \$14.1 million) in FY 2004 and \$69.7 million (state: \$53.9 million; local: \$15.8 million) in FY 2005.

The value of the educational exemptions that would be extended by this bill is estimated to be \$6.7 million (state: \$5.2 million; local: \$1.5 million) in FY 2004 and \$7.5 million (state: \$5.8 million; local: \$1.7 million) in FY 2005.

The extension of these medical-related and educational exemptions would not necessitate a budget amendment as the official budget estimates assume the extension of all expiring exemptions. The administrative costs associated with extending these exemptions would be minimal.

Reinstatement of Exemption for Printed Materials

The value of the exemption for printed materials purchased by advertising businesses from Virginia printers is not known. This provision would not necessitate a budget amendment as the official budget estimates assume this exemption would remain in effect. If the exemption is not reinstated, revenues for FY 2004 and FY 2005 would be expected to increase by an unknown amount.

The Department would incur minimal administrative costs associated with this provision for taxpayer education expenses.

New Exemption for Nonprofit Corporation Operating as a Museum and Gardens

It is known that one organization, MacCallum More Museum and Gardens, qualifies for this exemption. Based on information provided by this organization, it is estimated that this provision would have a minimum negative revenue impact of \$250 (state: \$190; local: \$60) in FY 2004 and \$270 (state: \$210; local: \$60) in FY 2005. The negative revenue impact could increase if other organizations qualify for this exemption.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

This bill would extend to July 1, 2004, the sunset dates for 30 retail sales and use tax exemptions in the medical-related group and the sunset dates for 31 retail sales and use tax exemptions in the educational group. These exemptions are scheduled to expire July 1, 2003.

Printed Materials Exemption

The exemption for printed materials was originally enacted in 1995 in order to level the playing field between Virginia printers and out-of-state printers. Before the exemption was enacted, Virginia advertising businesses could purchase printed materials from out-of-state printers tax exempt but had to pay the tax on purchases made from Virginia

printers, thus placing Virginia printers at a competitive disadvantage. The exemption had a sunset date of June 30, 1997, but the 1997 General Assembly extended the sunset date to June 30, 2002.

Similar Legislation

House Bill 1754 would extend to July 1, 2004, the sunset dates for 30 retail sales and use tax exemptions in the medical-related group. House Bill 1755 would extend to July 1, 2004, the sunset dates for 31 retail sales and use tax exemptions in the educational group.

cc : Secretary of Finance

Date: 02/04/03 GRM

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