

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Edward T. Scott

2. **Bill Number** HB 1084

3. **Committee** Senate Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax Exemption:
Extend the Sunset Date for Textbooks and
Educational Materials Distributed to
Educators Free of Charge

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would extend the sunset date of the retail sales and use tax exemption for textbooks and other educational materials withdrawn from inventory at book-publishing distribution facilities for free distribution to professors and other individuals who have an educational focus. The exemption is scheduled to expire July 1, 2004.

The sunset date would be extended from July 1, 2004, to July 1, 2008.

6. **No Fiscal Impact:** (See Line 8.)

7. **Budget amendment necessary:** None.

8. **Fiscal implications:**

There will be no revenue impact associated with extending this exemption because the General Fund revenue forecast assumes the extension of all expiring exemptions.

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

Department of Taxation

10. **Technical amendment necessary:** No.

11. **Other comments:**

This bill would extend the sunset date of the retail sales and use tax exemption for textbooks and other educational materials withdrawn from inventory at book-publishing distribution facilities and distributed to educators free of charge.

Under Virginia's sales tax law, retailers and manufacturers are allowed an exemption on purchases of items that become part of their resale inventory. The sales and use tax is collected by the retailer at the time a taxable retail sale is made. The same tax treatment applies to a book-publishing distributor that purchases goods for resale. The distributor may make exempt purchases of books and educational materials using the resale exemption. However, a retailer or manufacturer that uses an item purchased exempt of the tax for a purpose other than sale or resale is subject to use tax on the cost price of the item.

Generally, withdrawals from inventory by a retailer or manufacturer for donation or free distribution are treated as taxable transactions because these items are not withdrawn from inventory for sale or resale. This constitutes a taxable use by the retailer or manufacturer as discussed above. Taxpayers who make taxable withdrawals from inventory are required to report use tax to the Department of Taxation, calculated on the cost price of the items withdrawn from inventory.

The exemption authorized by this bill is an exception to the requirement that a business pay use tax on inventory withdrawn and donated free-of-charge.

This bill is identical to Senate Bill 347.

cc : Secretary of Finance

Date: 02/04/04 GRM