

**DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement**

1. **Patron** L. Scott Lingamfelter

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Automotive
Refinish Repair Materials

2. **Bill Number** HB 2762

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would amend the definition of "retail sale" and "sale at retail" to include separately stated charges for automotive refinish repair materials that are permanently affixed to or applied to a motor vehicle during its repair. This would allow such materials to be purchased exempt from the tax by the automotive repairers and refinishers and to be resold to the ultimate consumer. Tax would be collected on the sale to the consumer.

The effective date of this bill is not specified.

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

Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$753,000	GF
	\$110,000	TTF
	\$220,000	Local
2006-07	\$776,000	GF
	\$113,000	TTF
	\$227,000	Local
2007-08	\$799,000	GF
	\$117,000	TTF
	\$234,000	Local
2008-09	\$823,000	GF
	\$120,000	TTF
	\$241,000	Local
2009-10	\$847,000	GF
	\$124,000	TTF
	\$248,000	Local

2010-11	\$874,000	GF
	\$128,000	TFF
	\$255,000	Local

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Currently, automobile painters, repairers and refinishers are providing a nontaxable service and are deemed to be the users and consumers of all tangible personal property used and consumed by them and pay the tax on these items at the time of purchase. If this bill is enacted, automobile painters, repairers and refinishers would be able to purchase automotive refinish repair materials, including paint, exempt of the tax for resale and separately bill the vehicle owner for such items and charge the tax. The positive revenue gain resulting from the change in this bill would be due to the imposition of the sales tax on the sales of the repair materials to the ultimate consumer rather than on the cost price to the automotive repairer or refinisher. If this bill is enacted, sales and use tax revenues would increase by \$1.08 million in FY 2006, \$1.12 million in FY 2007, \$1.15 million in FY 2008, \$1.18 million in FY 2009, \$1.22 million in FY 2010, and \$1.26 million in FY 2011.

If this bill is enacted, the Department would incur no administrative costs.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally

Under the Virginia Retail Sales and Use Tax, there is a broad exemption from the sales and use tax for professional, insurance and personal services. Generally, service providers do not collect tax on the charge for their service, but rather pay sales tax on all tangible personal property purchased for use in providing their service.

Pursuant to regulations issued by the Department (23 VAC 10-210-1020), motor vehicle refinishers and painters are the consumers of the materials used in their business and are required to pay the tax on their purchases. In turn, taxes paid on consumables become a cost of doing business like other costs and should be taken into account in the charge for services billed to their customer.

This bill would provide an exception to the personal services exemption for one particular service sector, auto body repair and paint shops, to allow them to charge the tax on separately stated charges for paint and other supplies used by them in providing their

service. In turn, auto body repair shops would be able to purchase paint and other materials exempt of the tax for resale. Only automotive refinish repair materials that are permanently applied to or affixed to a motor vehicle during its repair would be eligible for this treatment.

This bill would create a disparate tax treatment between auto paint services and analogous activities, such as furniture refinishers and real property painters. Real property painters and furniture refinishers would continue to pay the tax on their purchases of paint and supplies.

cc : Secretary of Finance

Date: 2/8/2005 WBS
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