

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Harry J. Parrish

2. **Bill Number** HB 532

3. **Committee** Senate Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax;
Annual Exemption for School Supplies,
Clothing or Footwear, and Computers

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create a "sales tax holiday" by providing a temporary exemption from the sales and use tax for certain items of tangible personal property. The exemption would occur on an annual basis, beginning in 2006, and would be in effect for a three-day period beginning on the first Friday in August and ending at midnight on the first Sunday in August. The exemption would apply on a per item basis to:

- School supplies with a selling price of \$100 or less, including but not limited to, dictionaries and notebooks,
- Clothing and footwear with a selling price of \$100 or less
- Computer systems with a selling price of \$1,500 or less, and
- Computers, computer hardware, computer software, or portable or handheld calculators with a selling price of \$500 or less.

In addition to an exemption for school related supplies, this bill allows a dealer to absorb the sales tax on the sale of any item during the exemption period.

This bill requires TAX to develop guidelines describing the items eligible for the exemption, and make them available both electronically and in hard copy by August 1 of each year.

The effective date of this bill is not specified.

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

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	GF
	\$0	TTF
	\$0	Local

2006-07	<\$2.9 million>	GF
	<\$0.4 million>	TTF
	<\$0.8 million>	Local
2007-08	<\$3.1 million>	GF
	<\$0.4 million>	TTF
	<\$0.9 million>	Local
2008-09	<\$3.2 million>	GF
	<\$0.5 million>	TTF
	<\$0.9 million>	Local
2009-10	<\$3.3 million>	GF
	<\$0.5 million>	TTF
	<\$1.0 million>	Local
2010-11	<\$3.5 million>	GF
	<\$0.5 million>	TTF
	<\$1.0 million>	Local
2011-12	<\$3.6 million>	GF
	<\$0.5 million>	TTF
	<\$1.1 million>	Local

7. Budget amendment necessary: Yes.
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8. Fiscal implications:

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as “routine,” and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not “routine.” Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

The sales tax holiday proposed in this bill is estimated to reduce revenues by \$4.1 million in FY 2007, \$4.4 million in FY 2008, \$4.6 million in FY 2009, \$4.8 million in FY 2010, \$5.0 million in FY 2011, and \$5.2 million in FY 2012.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally

This bill would create a “sales tax holiday” by providing an annual exemption from the sales and use tax for certain items of tangible personal property. Beginning in 2006, the exemption would be effective for a three-day period beginning each year on the first Friday in August and ending at midnight on the first Sunday in August. During this period, Virginia consumers would be relieved of their obligation to pay retail sales and use tax on school supplies costing \$100 or less, items of clothing and footwear costing \$100 or less, computer systems costing \$1,500 or less, and computers, computer hardware, computer software, portable and hand held calculators costing \$500 or less. The price thresholds are determined after taking into account any discounts, coupons, or credits used to reduce the sales price for the consumer. The time period of this exemption, and the nature of the exempt items suggest that this bill is intended to primarily benefit purchases of back-to-school items.

In addition to school related items, this bill would allow dealers to elect to absorb the cost of the sales tax during the three-day exemption period. A dealer may elect to absorb the sales and use tax on the sale of any product and is not limited to absorbing the tax on the items eligible for the sales tax exemption. During this period, a dealer may advertise that he will absorb the sales and use tax without violating the general prohibition against doing so.

Impact on Dealers

Virginia dealers, including Internet and other remote retailers, who make sales of tangible personal property would be required to reprogram their cash registers or point-of-sale systems for a three-day period to account for the exemption period. Smaller retailers with less sophisticated systems may find it difficult to program their registers to accommodate the exemption period. Additionally, retailers may incur significant expenses for hiring and staff to administer the exemption. All retailers would be required to base their taxability determinations on guidelines developed by TAX and made available in hard copy and electronically by August 1 of each year.

Other States

Other states that provide or have recently provided “sales tax holiday” exemptions from the sales tax are Connecticut, Florida, Georgia, Iowa, Louisiana, Maryland, Massachusetts, Missouri, New Mexico, New York, North Carolina, South Carolina, Tennessee, and Texas.

Connecticut: Connecticut provides an exemption for clothing and footwear with a maximum cost of \$300 for a seven-day period each August. This exemption began in 2001.

Florida: Florida provided a nine-day exemption period from July 23, 2005 to July 31, 2005 for clothing with a maximum cost of \$50, school supplies with a maximum cost of \$20, and computers with a maximum cost of \$1,500.

Iowa: Iowa provides a two-day exemption each August for clothing and footwear with a maximum cost of \$100.

Louisiana: Louisiana will provide an exemption for the first \$2,500 of the sales or cost price of any consumer purchases of tangible personal property that occur December 16, 2005 through December 18, 2005.

Maryland: Maryland will provide an exemption for a five-day period from August 23, 2006 through August 27, 2006 for clothing and footwear with a maximum cost of \$100.

Massachusetts: Massachusetts provided a two-day exemption from August 13 through August 14, 2005 for all retail items costing \$2,500 or less.

Missouri: Missouri provides an annual three-day event beginning August 5 and ending August 7, in which articles of clothing with a maximum price of \$100, school supplies with a maximum price of \$50, computers with a maximum price of \$3,500, and computer software with a maximum price of \$350 will be exempt from sales and use tax.

New Mexico: New Mexico enacted legislation creating its first sales tax holiday in 2005. The annual three-day exemption includes clothing with a maximum cost of \$100 per article, school supplies with a maximum cost of \$15 per item and computers with a maximum cost of \$1,000.

New York: New York has enacted a permanent exemption for clothing and footwear priced at \$110 or less per item that began June 1, 2005. However, from January 31, 2005 through February 6, 2006, the state exempted items of clothing from state sales tax only.

North Carolina: North Carolina provided a three-day exemption in 2006 for clothing and school supplies with a maximum cost of \$100, computers with a maximum price of \$3,500, computer supplies with a maximum price of \$250 per item and sport or recreational equipment with a maximum price of \$50 per item. This holiday will occur each year.

South Carolina: South Carolina has enacted a three-day annual exemption for clothing, clothing accessories, footwear, school supplies, computers, printers and printer supplies, computer software, and various linens. This exemption is broader than other states' exemptions, as there are no price limitations on qualifying items.

Tennessee: Tennessee will provide an exemption for a three-day period beginning on the first Friday in August 2006 and ending the following Sunday. Exempt items will include clothing with a maximum sales price of \$100 per item, school supplies with a

maximum sales price of \$100 per item and computers with a maximum sales price of \$1,500 per item.

Texas: Texas provides an annual exemption in the first weekend of August for clothing and footwear priced at \$100 or less per item.

District of Columbia: In 2004, the District adopted a law to hold ten-day sales tax holidays twice yearly, one to take place in late August and the other to take place during the last week of November. During the holiday, clothing, footwear, and accessories priced at \$100 or less can be purchased tax-exempt. The August holiday also exempts school supplies.

Similar legislation

Senate Bill 571 would create an annual sales tax holiday for a three-day period beginning the first Friday in August and ending at midnight on the first Sunday in August. The exemption would apply on a per-item basis to school supplies with a selling price of \$20 or less, and clothing or footwear with a selling price of \$100 or less per item. In addition, this bill would allow dealers to absorb the sales tax on the sale of any item during the exemption period.

cc : Secretary of Finance
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