DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron R. Steven Landes

2. Bill Number HB 926

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Sales and Use Tax Refund on Sales of Goods by Certain Nonprofit Entities

5. Summary/Purpose:

This bill would provide certain nonprofit entities, as reimbursement for capital construction expenditures for additional retail locations in the Commonwealth, a refund of up to 25% of the sales and use tax they have collected and remitted on their sales of donated goods provided they:

- Routinely sell donated goods.
- Provide job training and employment to individuals with workplace disadvantages and disabilities.
- Spend at least 75% of their annual revenue on job training, job placement, or other related community services.
- Submit a refund application to the Department of Taxation after the new retail location opens for business, including records of capital construction costs.

The amount of the refund would limited to $1 million for each new retail location.

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:

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.

This bill would result in a tax revenue loss of unknown magnitude. The number of nonprofit entities that make retail sales is unknown. To the extent that any qualifying nonprofit entity constructs a new retail location in Virginia, it would be entitled to a refund under this bill of up to $1 million. To obtain the maximum refund of $1 million, a nonprofit entity would be required to make $80 million in sales of donated goods.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally

Any nonprofit entity that holds a valid certificate of exemption from the Department of Taxation is exempt from the sales and use tax on its purchases of tangible personal property that will be used or consumed by that entity. To qualify for this exemption, the nonprofit entity must meet the following requirements:

- The entity must be either an organization exempt under Internal Revenue Code (“IRC”) §§ 501(c)(3) or 501(c)(4), or have annual gross receipts of less than $5,000 and be organized for a charitable purpose.
- The entity must have annual administrative costs that are 40% or less of annual gross receipts.
- The entity must be in compliance with state solicitation laws, if applicable.
- The entity must provide TAX with an estimate of its total taxable purchases.
- The entity must provide TAX with a copy of its Form 990 or a list of its board of directors.
- The entity must provide TAX with a copy of a financial audit, if its gross annual revenues are equal to or exceed $250,000.

In addition to the exemption available for purchases of tangible personal property, this bill would provide nonprofit entities that make sales of donated goods a reimbursement for capital construction expenditures for the construction of additional retail locations in Virginia. If a nonprofit organization regularly engages in the sale of tangible personal property, it is required to register as a dealer and collect and pay the tax on retail sales unless specifically exempted. Under this bill, the nonprofit entity would be entitled to a reimbursement amount, not to exceed 25% of the sales and use tax that organization has collected and remitted during the same year that the capital expenditures are incurred, on its sales of goods that have been donated to that nonprofit entity.

cc : Secretary of Finance

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