

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Ryan T. McDougale

2. **Bill Number** SB 571

3. **Committee** Senate Finance

**House of Origin:**

       **Introduced**

  X   **Substitute**

       **Engrossed**

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

**Second House:**

       **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 starting 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, including but not limited to, dictionaries, notebooks, pens, pencils, notebook paper, and calculators, and
- Clothing or footwear with a selling price of \$100 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 July 15 of each year.

The effective date of this bill is not specified.

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

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

2006-07	<\$2.5 million>	GF
	<\$ .4 million>	TTF
	<\$ .7 million>	Local
2007-08	<\$2.6 million>	GF
	<\$ .4 million>	TTF
	<\$ .8 million>	Local
2008-09	<\$2.7 million>	GF
	<\$ .4 million>	TTF
	<\$ .8 million>	Local
2009-10	<\$2.9 million>	GF
	<\$ .4 million>	TTF
	<\$ .8 million>	Local
2010-11	<\$3.0 million>	GF
	<\$ .4 million>	TTF
	<\$ .9 million>	Local
2011-12	<\$3.1 million>	GF
	<\$ .5 million>	TTF
	<\$ .9 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 \$3.6 million in FY 2007, \$3.7 million in FY 2008, \$3.9 million in FY 2009, \$4.1 million in FY 2010, \$4.3 million in FY 2011, and \$4.5 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 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 starting 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, including but not limited to, dictionaries, notebooks, pens, pencils, notebook paper, and calculators, and clothing or footwear with a selling price of \$100 or less. 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 seven-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 seven-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**

The following chart contains a list of every sales tax holiday bill proposal for 2006. While the eleven bills are similar, each contains at least one characteristic that deviates from the other bills.

## 2006 SALES TAX HOLIDAY BILLS CHART

Bill Number	Patron	Days	Brief Description of items	Limitations	Additional Information	Revenue Impact (Millions)
HB 12	Jones	4	School supplies Clothing/footwear	\$20 or less \$100 or less	No additional information	FY 07 <\$4.8> FY 08 <\$5.0> FY 09 <\$5.2> FY 10 <\$5.5> FY 11 <\$5.8> FY 12 <\$6.0>
HB 131	Cosgrove	10	School supplies Clothing/footwear Computers	No cost limitation	No additional information	FY 07 <\$16.1> FY 08 <\$16.9> FY 09 <\$17.7> FY 10 <\$18.4> FY 11 <\$19.4> FY 12 <\$20.0>
HB 484	Frederick	7	School supplies Clothing/footwear Computers	\$20 or less \$100 or less \$1,500 or less	No additional information	FY 07 <\$9.7> FY 08 <\$10.2> FY 09 <\$10.7> FY 10 <\$11.2> FY 11 <\$11.8> FY 12 <\$12.2>
HB 509	Armstrong	3	School supplies Clothing Computers Sports/recreational equipment	\$100 or less \$100 or less \$3,500 or less \$50 or less	No additional information	FY 07 <\$4.6> FY 08 <\$4.8> FY 09 <\$5.0> FY 10 <\$5.2> FY 11 <\$5.6> FY 12 <\$5.8>
HB 528	Rust	5	Clothing/footwear Computer system Computer hardware/software	Less than \$200 Less than \$1,250 Less than \$500	This bill would create a "sales tax holiday" from the state sales tax only.	FY 07 <\$4.8> FY 08 <\$5.2> FY 09 <\$5.4> FY 10 <\$5.6> FY 11 <\$6.0> FY 12 <\$6.2>

HB 532	Parrish	3	<b>Original</b> School supplies Clothing/footwear Computer/related peripheral  <b>Substitute</b> <b>School supplies</b> <b>Clothing/footwear</b> <b>Computer systems</b> <b>Computers/hardware/software/calculators</b>	<b>Original</b> \$20 or less \$100 or less \$1,500 or less  <b>Substitute</b> <b>\$100 or less</b> <b>\$100 or less</b> <b>\$1,500 or less</b> <b>\$500 or less</b>	No additional information	<b>**Same for original and substitute</b> FY 07 <\$4.1> FY 08 <\$4.4> FY 09 <\$4.6> FY 10 <\$4.8> FY 11 <\$5.0> FY 12 <\$5.2>
HB 708	Ware, O	7	School supplies Clothing/footwear	\$100 or less \$100 or less	No additional information	FY 07 <\$8.2> FY 08 <\$8.7> FY 09 <\$9.2> FY 10 <\$9.6> FY 11 <\$10.0> FY 12 <\$10.5>
HB 1125	Cline	7	School supplies Clothing/footwear Computer systems Computers/Hardware/Software Hand-held portable calculators	\$100 or less \$100 or less \$1,500 or less \$500 or less \$500 or less	Exemption does not apply to purchases made at theme park. Dealers are not authorized to absorb tax.	FY 07 <\$9.7> FY 08 <\$10.2> FY 09 <\$10.7> FY 10 <\$11.2> FY 11 <\$11.8> FY 12 <\$12.2>
HB 1206	Moran	3	School supplies	\$100 or less	Dealers are not authorized to absorb the tax.	FY 07 <\$0.56> FY 08 <\$0.60> FY 09 <\$0.62> FY 10 <\$0.65> FY 11 <\$0.68> FY 12 <\$0.70>
SB 60	Reynolds	7	School supplies Clothing	\$100 or less \$100 or less	This local sales tax holiday bill authorizes localities to adopt sales tax holidays based on majority vote.	Unknown revenue impact

SB 571	McDougle	7	ORIGINAL	ORIGINAL	No additional information	FY 07	<\$9.7>
			School supplies	\$100 or less		FY 08	<\$10.2>
			Clothing/footwear	\$100 or less		FY 09	<\$10.7>
			Computer/Systems/Hardware/ Software	\$1,500 or less		FY 10	<\$11.2>
			Portable/Hand-held calculators	\$500 or less		FY 11	<\$11.8>
		3	SUBSTITUTE			FY 12	<\$12.2>
			School Supplies	\$20 or less		FY 07	<\$3.6>
			Clothing/footwear	\$100 or less		FY 08	<\$3.7>
						FY 09	<\$3.9>
						FY 10	<\$4.1>
						FY 11	<\$4.3>
						FY 12	<\$4.5>