

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** W. Roscoe Reynolds

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax;
Annual Exemption for Certain Localities

2. **Bill Number** SB 60

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize certain counties and cities by a majority vote of the local governing body to provide an exemption from their local sales and use tax for certain school-related items purchased during a specific seven-day period during the end of August each year. The state sales and use tax also would not apply to such school-related items in participating counties and cities. The exemption would apply on a per item basis to the following items:

- School supplies with a selling price of \$100 or less
- Clothing with a selling price of \$100 or less.

This bill would also authorize dealers in participating counties and cities to absorb the sales and use tax on all other items sold during the same time period and thereby relieve the purchaser of the obligation to pay such tax. Dealers who absorb such taxes would be liable for payment of the same to the Tax Commissioner.

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.

The fiscal impact of this bill is unknown because the localities that will choose to enact the necessary ordinance for a sales tax holiday are unknown. Based on the Virginia Employment Commission (VEC) data, there appears to be 32 localities potentially eligible to impose the tax exemption for certain back-to-school items. If every potentially eligible locality adopted an ordinance, the local tax revenue would sustain an estimated loss of \$90,000 annually for fiscal years 2007 through 2009 and \$100,000 beginning in fiscal year 2010. Localities that meet the unemployment criteria and are contiguous to another county or city that is also contiguous to a bordering state contribute 10.3% to total Virginia taxable sales. Of the 44 counties or cities that have a ten-year average unemployment rate in excess of 5% in Virginia, slightly more than 70% of these localities would be authorized to hold a sales tax holiday.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally

This bill would allow cities and counties, meeting certain criteria, an opportunity to adopt an annual exemption from the state and local sales and use tax for certain items of tangible personal property. In order to be eligible for such exemption, a city or county must be contiguous to a state (including the District of Columbia) whose laws authorize a sales tax holiday and must have an average 10-year unemployment rate of greater than 5%. Cities and counties that are contiguous to an eligible locality and have the same high unemployment rate are also eligible.

The exemption would be effective from the Monday falling fourteen days before the first Monday in September and would last for a seven-day period, ending at midnight on the following Sunday. Thus, the "holiday" period would run from the Monday two weeks before Labor Day and last for one week. During this period Virginia consumers would be relieved of their obligation to pay retail sales and use tax on school supplies and items of clothing and footwear with a cost of \$100 or less. The \$100 threshold is determined after taking into account any discounts, coupons, or credits used to reduce the sales price the consumer. The time period of this exemption, and the nature of the exemption suggest that this bill is intended to primarily benefit purchases of back-to-school items. Furthermore, this bill would benefit Virginia retailers who lose revenues when a sales tax holiday occurs in a nearby state.

In addition to providing an exemption for school related items, this bill also allows a dealer to elect during the exemption period to not collect retail sales and use tax directly from the consumer and absorb the cost of the sales tax himself. A dealer may elect to absorb the

sales tax on the sale of any item and is not limited to the items eligible for the exemption. During this period and during the fourteen days prior to the start of the exemption 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

Dealers in the eligible localities, 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	School supplies Clothing/footwear Computer/related peripheral	\$20 or less \$100 or less \$1,500 or less	No additional information	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	School supplies Clothing/footwear Computer/Systems/Hardware/ Software Portable/Hand-held calculators	\$100 or less \$100 or less \$1,500 or less \$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>

cc : Secretary of Finance

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