

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Jennifer L. McClellan

2. **Bill Number** HB 1659

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax; Limited
Exemption for Computers and Related
Peripheral Equipment

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would add computers and related peripheral equipment to the list of items that are exempt from the retail sales and use tax during the annual three-day "sales tax holiday" period. In addition to certain school supplies and clothing, which currently qualify for the sales tax holiday, computers and related peripheral equipment would also qualify for exemption during that period, provided that the selling price of each computer or related item does not exceed \$1,500.

The effective date of this bill is not specified.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$0	GF
	\$0	TTF
	\$0	Local
2007-08	(\$400,000)	GF
	(\$ 60,000)	TTF
	(\$120,000)	Local
2008-09	(\$420,000)	GF
	(\$ 60,000)	TTF
	(\$120,000)	Local
2009-10	(\$450,000)	GF
	(\$ 60,000)	TTF
	(\$130,000)	Local
2010-11	(\$460,000)	GF
	(\$ 70,000)	TTF
	(\$140,000)	Local

2011-12	(\$490,000)	GF
	(\$ 70,000)	TTF
	(\$140,000)	Local
2012-13	(\$510,000)	GF
	(\$ 70,000)	TTF
	(\$150,000)	Local

7. Budget amendment necessary: Yes.
Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs

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.

Revenue Impact:

The sales tax exemption proposed in this bill is estimated to reduce revenues by \$580,000 in FY 2008, \$600,000 in FY 2009, \$640,000 in FY 2010, \$670,000 in FY 2011, \$700,000 in FY 2012, and \$730,000 in FY 2013.

9. Specific agency or political subdivisions affected:
TAX

10. Technical amendment necessary: No.

11. Other comments:

Generally

The 2006 General Assembly enacted Senate Bill 571 and House Bill 532 (Chapters 579 and 593, 2006 Acts of Assembly), providing for an annual three-day sales tax holiday scheduled to begin each year at 12:01 a.m. on the first Friday in August, and to end at midnight on the following Sunday.

Pursuant to Senate Bill 571 and House Bill 532, school supply items, to include dictionaries, notebooks, pens, pencils, notebook paper, calculators, and similar items can

be purchased exempt of the retail sales and use tax during the three-day holiday period, provided that the sales price for each item does not exceed \$20. In addition, articles of clothing with a sales price of \$100 or less can be purchased exempt of the tax during the holiday period.

In addition to school related items, the law also permits 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.

The law also requires that TAX develop guidelines to identify and define the qualifying items, develop the rules for implementation of the sales tax holiday, and to make these guidelines available by July 15th of each year. In 2006, TAX developed its first set of sales tax holiday guidelines, which identified school supply items that would qualify for exemption during the sales tax holiday and described basic situations in which the exemption would not apply. Given the nature of the items that qualified for exemption during the holiday and the timing of the holiday period, the three-day exemption period was quickly coined a “back-to-school” holiday, despite the fact that some of the eligible items were not, in fact, school-related. While the use of a computer is often a requirement for many students, computers were not included among the items eligible for exemption during the sales tax holiday.

This bill would add computers and related peripheral equipment to the list of items available for exemption during the sales tax holiday, provided that such computers or related equipment have a selling price of \$1,500 or less.

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 the three-day period to account for the additional qualifying items. All retailers would be required to base their taxability determinations concerning related peripheral equipment on updated guidelines developed by TAX and made available in hard copy and electronically by July 15th of each year.

Other States

In 2006, Virginia was one of eighteen states that provided “sales tax holiday” exemptions from the sales tax. Of the eighteen “sales tax holiday” states, only seven included computers as items that qualified for the holiday exemption, and most states placed a threshold on the price of eligible computers. The states providing an exemption for computers included Alabama, Georgia, Missouri, New Mexico, North Carolina, South Carolina, and Tennessee.

Alabama: In addition to exemptions offered for clothing, school supplies, and books, Alabama provided an exemption for computers with a maximum cost of \$750. The exemption period took place from August 4th through August 6th of 2006.

Georgia: From August 3rd through August 6th, Georgia offered an exemption on clothing, school supplies, energy efficient products, and computers with a maximum cost of \$1,500.

Missouri: Missouri's sales tax holiday took place on August 4th through August 6th. Among the eligible items were clothing, school supplies, and computers with a maximum price of \$3,500.

New Mexico: New Mexico's sales tax holiday also took place on August 4th through August 6th. The eligible items included certain clothing, school supplies, and computers with a maximum cost of \$1,000.

North Carolina: North Carolina's August 4th through August 6th sales tax holiday provided an exemption for certain clothing and sports equipment, in addition to computers with a maximum selling price of \$3,500.

South Carolina: South Carolina's sales tax holiday, which took place on August 4th through August 6th provided an exemption from the retail sales and use tax for clothing, school supplies, and computers, and placed no cap on the cost of any of these items.

Tennessee: Tennessee's sales tax holiday also took place on August 4th through August 6th of 2006. The items available for exemption included clothing, school supplies, and computers with a maximum price of \$1,500.

Similar Legislation:

House Bill 1678 would provide an annual three-day "sales tax holiday" for energy efficient products purchased for noncommercial home or personal use. The exemption would be limited to products priced at \$2,500 or less per item, and would be available for items purchased during the first Friday, Saturday and Sunday of October. Qualifying items would be required to meet energy saving efficiency requirements as established by the Environmental Protection Agency and the U.S. Department of Energy.

cc : Secretary of Finance

Date: 01/12/2007 KP
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