

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** John A. Cosgrove

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: Sales Tax
Holiday for Energy Efficient Products

2. **Bill Number** HB 1678

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an annual three-day sales tax "holiday" during which energy efficient products purchased for noncommercial home or personal use with a sales price of \$2,500 or less per item could be purchased exempt of the Retail Sales and Use Tax. The sales tax holiday would take place each year on 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.

This bill would authorize dealers to absorb the sales and use tax on all other items sold during the same time period, thereby relieving the purchasers of the obligation to pay such tax. Any dealer who absorbed the tax on non-qualifying items would be required to remit such tax to the Tax Commissioner.

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	\$ 87,000	GF
	\$ 13,000	TTF
	\$ 25,000	Local
2008-09	\$ 91,000	GF
	\$ 13,000	TTF
	\$ 27,000	Local

2009-10	\$ 98,000	GF
	\$ 14,000	TTF
	\$ 28,000	Local
2010-11	\$104,000	GF
	\$ 15,000	TTF
	\$ 30,000	Local
2011-12	\$112,000	GF
	\$ 16,000	TTF
	\$ 33,000	Local
2012-13	\$120,000	GF
	\$ 18,000	TTF
	\$ 35,000	Local

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs Impact

TAX has not assigned any administrative costs to this proposal 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. TAX will incur significant administrative costs only if the legislation requires that TAX track the results from this sales tax holiday. 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 at least \$125,000 in FY 2008, \$131,000 in FY 2009, \$140,000 in FY 2010, \$149,000 in FY 2011, \$161,000 in FY 2012, and \$173,000 in FY 2013. These estimates do not include the loss attributable to sales of ceiling fans, fluorescent light bulbs, and programmable thermostats due to lack of data.

9. Specific agency or political subdivisions affected:

TAX

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The 2006 General Assembly enacted Senate Bill 262 (Chapter 939, 2006 Acts of Assembly), which established an energy policy for the Commonwealth. Senate Bill 262 provided a state personal income tax deduction available in the amount of 20% of the sales tax paid on certain energy efficient equipment or appliances, as well as qualifying fuel cells, gas heat pumps, central air conditions, advanced gas, oil or water heaters, oil fired furnaces, and programmable thermostats. The law currently permits a maximum deduction of \$500.

Also, in 2006, Virginia held its first annual three-day sales tax holiday during the first weekend in August (Senate Bill 571 and House Bill 532 Chapters 579 and 593, 2006 Acts of Assembly). Qualifying school supplies with a sales price of \$20 or less per item and qualifying clothing items with a sales price of \$100 or less per item can be purchased exempt of the Retail Sales and Use Tax during the three-day period.

Proposal

This proposal would create a “sales tax holiday” for energy efficient products that are purchased for noncommercial home or personal use, and that have a sales price of \$2,500 or less per product. For purposes of this exemption, an energy efficient product is any dishwasher, clothes washer, air conditioner, ceiling fan, incandescent or fluorescent light bulb, dehumidifier, programmable thermostat, or refrigerator, the energy efficiency of which has been designated by the United States Environmental Protection Agency and the United States Department of Energy as meeting or exceeding each such agency’s energy saving efficiency requirements or that has been designated as meeting or exceeding such requirements under each such agency’s Energy Star Program.

Impact on Dealers

Virginia dealers making sales of energy efficient products would be required to reprogram their cash registers for the three-day “holiday” period to account for the exempt sales made during this period. Smaller retailers with less sophisticated systems may be unable to reprogram their systems to accommodate the exemption period. Retailers may incur significant administrative costs to administer this exemption.

Other States

The following states offered some form of a “sales tax holiday” specifically for energy efficient or energy saving products in 2006:

Connecticut: Connecticut enacted a 13-month sales tax holiday on energy-efficiency products and energy-efficient heating equipment. The holiday runs from June 1, 2006 to June 30, 2007, and applies to consumer purchases of insulation, programmable thermostats, water heater blankets, window film, window and door weather strips,

caulking, water heaters, gas furnaces, windows that meet federal Energy Star Standards, and oil furnaces that are at least 85 percent efficient.

Florida: Florida provided a 7-day sales tax holiday for the purchase of energy efficient products.

Georgia: Georgia provided a sales tax holiday for purchases of energy efficient products of \$1500 or less for noncommercial home or personal use.

Similar legislation

Senate Bill 867 would provide a four-day sales tax holiday period in October, during which certain energy-efficient products with a sales price of \$2,500 or less could be purchased exempt of the Retail Sales and Use Tax.

House Bill 1878 would provide an income tax deduction for individuals who make purchases on or after January 1, 2007 of energy-efficient equipment used for heating, cooling, and providing electricity to their residences. The individual would receive a deduction in the amount of 50% of equipment expenditures, but the deduction could not exceed \$7,500.

House Bill 2160 would provide an income tax credit for individuals who make purchases on or after January 1, 2007, to individuals who purchase energy efficient equipment for their homes. The individual would receive a credit in the amount of 30% of equipment expenditures, but the amount of the credit could not exceed \$1,500.

House Bill 1659 would add computers and related peripheral equipment to the list of items eligible for exemption during the "sales tax holiday period" which begins each year on the first Friday in August and ends on the Sunday immediately following.

Senate Bill 2167 would add computer systems with a selling price of \$1,500 or less per item and computers, computer hardware, computer software, or portable or handheld calculators with a selling price of \$500 or less per item to the list of items that are eligible for exemption during the existing three-day sales tax holiday period.

cc : Secretary of Finance

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