

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** David L. Englin

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax Exemption; Energy
Efficient Products

2. **Bill Number** HB 2739

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an exemption from the Retail Sales and Use Tax for tangible personal property that has been certified with an Energy Star label by the United States Department of Energy or the Environmental Protection Agency.

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:**

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

This bill would result in a revenue loss, the magnitude of which is unknown, but substantial. There are more than 50 categories of products eligible for the Energy Star designation, including clothes washers, refrigerators, freezers, central air conditioners, home sealing insulation, windows, cordless phones, televisions, computers, monitors, printers, commercial food fryers, commercial solid door refrigerators, and vending

machines. Based on available sales data that covers only a few of the Energy Star product categories, including dishwashers, clothes washers, air conditioners, refrigerators and dehumidifiers, the annual cost of the exemption could potentially be \$18 million annually. This estimate does not reflect many categories such as computers and televisions, which would likely have significant costs. With the large and growing number of product categories that qualify as Energy Star products, the revenue loss associated with the proposed sales and use tax exemption is expected to be substantial.

9. Specific agency or political subdivisions affected:

TAX

10. Technical amendment necessary: No.

11. Other comments:

Generally

This bill would provide an exemption from the Retail Sales and Use Tax for all products sold that have been certified with an Energy Star label by the United States Department of Energy or the Environmental Protection Agency. Energy Star is a government/industry partnership formed in 1992 for the purpose of identifying and promoting energy efficient products. Computers and monitors were the first labeled products to be characterized as energy efficient. In 1995 the Environmental Protection Agency expanded the label to include office equipment. In 1996 the EPA partnered with the US Department of Energy for particular product categories. Now Energy Star contains over 50 categories of products, including major appliances, office equipment, home electronics, new homes, and commercial and industrial buildings. Energy Star partners with more than 8,000 public and private organizations.

Current Law

The 2006 General Assembly enacted Senate Bill 262 (Chapter 939, 2006 Acts of Assembly), which established an energy policy for the Commonwealth. Under this bill, a state personal income tax deduction is available in the amount of 20% of the sales tax paid for certain energy efficient items, such as clothes washers, air conditioners, dishwashers, refrigerators, heat pumps, and water heaters.

Proposal

This bill would provide an exemption from the Retail Sales and Use Tax for all tangible personal property that has been certified with an Energy Star label by the United States Department of Energy or the Environmental Protection Agency. This a broad-based exemption that would apply to any tangible personal property that contains an energy star label, regardless of whether the purchaser is an individual or a business.

Similar Legislation

House Bill 1678 would provide a three-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.

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 of 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.

cc : Secretary of Finance

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