DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement

1. Patron Thomas Davis Rust

2. Bill Number HB 442

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

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

5. Summary/Purpose:

This bill would add computers and related peripheral equipment to the list of items that are eligible for exemption during the three-day sales tax holiday period, which takes place each year on the first Friday in August, and ends on the following Sunday. The exemption would be available for computers and related peripheral equipment with a selling price of $1,500 or less per item. Pursuant to the original sales tax holiday legislation, TAX would be required to update its sales tax holiday guidelines to reflect this change in exempt items.

Under current law, school supplies with a selling price of $20 or less per item and articles of clothing with a selling price of $100 or less per item are eligible for the exemption.

The effective date of this bill is not specified.

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

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2007-08	$0	GF
	$0	TTF
	$0	Local
2008-09	($0.41 million)	GF
	($0.06 million)	TTF
	($0.12 million)	Local
2009-10	($0.43 million)	GF
	($0.06 million)	TTF
	($0.13 million)	Local

2010-11	($0.45 million)	GF
	($0.07 million)	TTF
	($0.13 million)	Local
2011-12	($0.47 million)	GF
	($0.07 million)	TTF
	($0.14 million)	Local
2012-13	($0.49 million)	GF
	($0.07 million)	TTF
	($0.14 million)	Local
2013-14	($0.51 million)	GF
	($0.07 million)	TTF
	($0.15 million)	Local

7. Budget amendment necessary:
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 $0.59 million in FY 2009, $0.62 million in FY 2010, $0.65 million in FY 2011, $0.68 million in FY 2012, $0.70 million in FY 2013, and $0.73 million in FY 2014.

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 (Acts of Assembly 2006, Chapters 579 and 593), 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.

Additional Sales Tax Holidays in Virginia

In addition to the sales tax holiday available for clothing and school supplies enacted in 2006, the 2007 General Assembly enacted two additional sales tax holidays. House Bill 1678 and Senate Bill 867 (Acts of Assembly 2007, Chapters 176 and 817) provide an annual exemption from the Retail Sales and Use Tax for the purchase of certain Energy Star qualified products. The sales tax holiday begins on the Friday before the second Monday in October and ends on the second Monday in October. Items eligible for exemption during the "Energy Star" holiday are limited to certain Energy Star qualified products purchased for noncommercial or residential use with a selling price of $2,500 or less per item.

Senate Bill 1167 (Acts of Assembly 2007, Chapter 608) provides an annual exemption, from the Retail Sales and Use Tax, beginning in 2008, for the purchase of certain hurricane preparedness equipment purchased during a seven-day period, beginning on May 25 and ending on May 31. Items eligible for exemption during the seven-day period include portable generators, with a selling price of $1,000 or less per item and additional hurricane preparedness equipment, such as carbon monoxide detectors, batteries, radios, and fuel tanks with a selling price of $60 or less per item.

Like the sales tax holiday for clothing and school supplies, both the Energy Star and Hurricane Preparedness sales tax holiday statutes contain provisions authorizing dealers to absorb the sales and use tax on all other items sold during the same time period. Both holidays will expire on July 1, 2012.

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 2007, Virginia was one of sixteen states that offered some form of a sales tax holiday. Nine states, including Virginia, held a sales tax holiday for which clothing and school supplies were sold exempt of the Retail Sales and Use Tax. Of those nine states, seven states also offered computers or computer related supplies as items that qualified for the holiday exemption. The majority of states exempting computers and related peripheral equipment placed a threshold on the price of eligible computers. The states providing an exemption for computers during their sales tax holidays included Alabama, Georgia, Missouri, New Mexico, North Carolina, South Carolina, and Tennessee. Details of those holidays are set forth below:

Alabama: In addition to exemptions offered for clothing, school supplies, and books, Alabama provided an exemption for computers, computer software, and school computer supplies with a maximum cost of $750. The exemption period took place from August 3rd through August 5th, 2007.

Georgia: From August 2nd through August 5th, Georgia offered an exemption on clothing, school supplies, and energy efficient products, as well as computers and computer related accessories for personal use with a maximum cost of $1,500.

Missouri: Missouri's sales tax holiday took place on August 3rd through August 5th. Among the eligible items were clothing and school supplies, as well as computer software costing $350 or less and computers with a maximum price of $3,500.

New Mexico: New Mexico's sales tax holiday also took place on August 3rd through August 5th. The eligible items included certain clothing and school supplies, as well as computer-related items costing $500 or less and computers with a maximum cost of $1,000.

North Carolina: North Carolina's August 3rd through August 5th sales tax holiday provided an exemption for certain clothing, school supplies, and sports equipment. In addition, the holiday exempted computers with a selling price of $3,500 or less per item and computer supplies with a maximum selling price of $250.

South Carolina: South Carolina's sales tax holiday, which took place on August 3rd through 5th 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 3rd through August 5th, and provided an exemption from the Retail Sales and Use Tax on clothing and school supplies as well as computers with a maximum price of $1,500.

Similar Legislation

Holiday for Clothing and School Supplies

House Bill 57 is identical to this bill**.**

House Bill 263 is substantively identical to this bill, but would expand the list of items exempt from the Retail Sales and Use Tax during the sales tax holiday period for school supplies and clothing, to include computers and related equipment, rather than computers and related peripheral equipment. House Bill 263 specifies that the exemption for computers and related equipment will be available during the sales tax holiday for clothing and school supplies beginning in 2008.

House Bill 758 would add computers and related equipment to the list of items eligible for exemption during the August sales tax holiday for clothing and school supplies. There is no cap on the cost of computers or related equipment eligible for this exemption.

Energy Star Holiday

House Bill 56 and House Bill 219 would expand the time frame for the Energy Star Sales Tax Holiday to include a four-day period in April in addition to the current four-day period in October.

House Bill 794 would remove the requirement that Energy Star products must be purchased for noncommercial home or personal use in order to be exempt from the Retail Sales and Use Tax during the Energy Star Sales Tax Holiday.

House Bill 795 would add WaterSense qualified products to the items that qualify for the exemption provided during the Energy Star Sales Tax Holiday.

House Bill 1229 would add WaterSense products and additional Energy Star products to the Energy Star Sales Tax Holiday exemption. This bill would also add a second four-day Energy Star Sales Tax Holiday period in April when certain such products are exempt from the Retail Sales and Use Tax. Additionally, it would remove the requirement that qualifying items be purchased for noncommercial home or personal use in order to be eligible for exemption during the Energy Star Sales Tax Holiday.

cc : Secretary of Finance

Date: 1/15/2008 KP
DLAS File Name: HB442F161