

# DEPARTMENT OF TAXATION

## 2012 Fiscal Impact Statement

1. **Patron** Daniel W. Marshall, III

2. **Bill Number** HB 565

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales and Use Tax; Adds Computers to Items Qualifying for Sales Tax Holiday

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would add personal computers and related equipment with a maximum selling price of \$3,500 to the list of items that qualify for exemption from the Retail Sales and Use Tax during the sales tax holiday for school supplies and clothing. "Related equipment" would be defined as monitors, keyboards, and mice. In order to qualify for the exemption, the related computer equipment would need to be purchased at the same time as the computer.

Current law provides a three-day "sales tax holiday" period which takes place each year on the first Friday in August and ends on the following Sunday, during which school supplies with a maximum sales price of \$20 per item and clothing with a maximum sales price of \$100 per item can be purchased exempt of the Retail Sales and Use Tax. Under current law, computers and computer equipment do not qualify for exemption during this holiday period.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.

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

### 7b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2011-12	\$0	GF
	\$0	TTF
	\$0	Local
	\$0	HMOF
2012-13	\$0.41 million	GF
	\$0.06 million	TTF
	\$0.12 million	Local
	\$0.01 million	HMOF

2013-14	\$0.42 million	GF
	\$0.06 million	TTF
	\$0.12 million	Local
	\$0.01 million	HMOF
2014-15	\$0.44 million	GF
	\$0.06 million	TTF
	\$0.13 million	Local
	\$0.01 million	HMOF
2015-16	\$0.45 million	GF
	\$0.07 million	TTF
	\$0.13 million	Local
	\$0.01 million	HMOF
2016-17	\$0.47 million	GF
	\$0.07 million	TTF
	\$0.14 million	Local
	\$0.02 million	HMOF
2017-18	\$0.48 million	GF
	\$0.07 million	TTF
	\$0.15 million	Local
	\$0.02 million	HMOF

## 8. Fiscal implications:

### Administrative Costs

The Department considers implementation of this bill as “routine” and does not require additional funding.

### Revenue Impact

The introduced Executive Budget allocates currently undedicated Retail Sales and Use Tax revenues from the General Fund to the Highway Maintenance and Operating Fund (“HMOF”) beginning July 1, 2012. The revenue impact of this bill assumes passage of the introduced Executive Budget.

The sales tax exemption proposed in this bill is estimated to reduce revenues by \$0.60 million in Fiscal Year 2013, \$0.61 million in Fiscal Year 2014, \$0.64 million in Fiscal Year 2015, \$0.66 million in Fiscal Year 2016, \$0.70 million in Fiscal Year 2017, and \$0.72 million in Fiscal Year 2018.

## 9. Specific agency or political subdivisions affected:

Department of Taxation

**10. Technical amendment necessary: No.**

**11. Other comments:**

In 2006, the General Assembly enacted legislation providing for an annual three-day sales tax holiday for clothing and school supplies, 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 this legislation, school supply items, including 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.

As mandated by the law, in 2006 the Department 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 scenarios in which the exemption would not apply. Given the nature of the qualifying items 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.

**Proposal**

This bill would add personal computers and related equipment with a maximum selling price of \$3,500 per item to the list of items available for exemption from the Retail Sales and Use Tax during the sales tax holiday for school supplies and clothing. “Related equipment” would be defined as monitors, keyboards, and mice. In order to qualify for the exemption, the related computer equipment would need to be purchased at the same time as the computer.

**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 the Department and made available in hard copy and electronically by July 15<sup>th</sup> of each year.

## Other Sales Tax Holidays Currently Offered in Virginia

**Hurricane Preparedness Sales Tax Holiday:** Enacted during the 2007 legislative session, this law provides an annual seven-day period in May during which certain hurricane preparedness equipment can be purchased exempt from the sales and use tax. Items eligible for exemption during the holiday 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. This holiday is set to expire on July 1, 2012.

**Energy Star and WaterSense Sales Tax Holiday:** Enacted during the 2007 legislative session and expanded in 2008, this law provides an annual exemption from the Retail Sales and Use Tax for the purchase of certain Energy Star and WaterSense qualified products purchased during a four-day period in October. Items eligible for exemption during this holiday include dishwashers, clothes washers, air conditioners, ceiling fans, compact fluorescent light bulbs, dehumidifiers, programmable thermostats, and refrigerators, provided such items are designated by the United States Environmental Protection Agency and the United States Department of Energy as "Energy Star." The exemption also extends to bathroom sink faucets, faucet accessories, toilets, and showerheads that have been designated as WaterSense by the Environmental Protection Agency. Qualifying Energy Star and WaterSense products must cost \$2,500 or less per item and be purchased for noncommercial home or personal use. The holiday is set to expire on July 1, 2012.

## Other States

In 2011, Virginia was one of seventeen states that imposed a school supply-themed, clothing-themed or comprehensive sales tax holiday. Of those, six states specifically included computers in the list of items that would qualify for exemption during the holiday.

State	Items Included/Maximum Cost		2011 Dates
Alabama	Clothing	\$100	August 5-7
	Computers	\$750	
	School supplies	\$50	
	Books	\$30	
Arkansas	Clothing	\$200	August 6-7
	School supplies	No limit	
Connecticut	Clothing/footwear	\$300	August 21-27
Florida	School supplies	\$15	August 12-14
Iowa	Clothing	\$100	August 5-6
Louisiana	All TPP	\$2,500	August 5-6
Maryland	Clothing/footwear	\$100	August 14-20
Massachusetts	All TPP	\$2,500	August 13-14
Mississippi	Clothing/footwear	\$100	July 29-30
Missouri	Clothing	\$100	August 5-7
	Computers	\$3,500	
	School supplies	\$50	
New Mexico	Clothing	\$100	August 5-7
	Computers	\$1,000	
	School supplies	\$15	

North Carolina	Clothing	\$100	August 5-7
	School supplies	\$100	
	Instructional material	\$300	
	Computers	\$3,500	
	Other comp equip	\$250	
	Sports equipment	\$50	
Oklahoma	Clothing	\$100	August 5-7
South Carolina	Clothing	No limit	August 5-7
	School supplies		
	Computers		
Tennessee	Clothing	\$100	August 5-7
	School supplies	\$100	
	Computers	\$1,500	
Texas	Clothing	\$100	August 19-21
	Backpack	\$100	
	School supplies	\$100	
Virginia	Clothing	\$100	August 5-7
	School supplies	\$20	

Source: Federation of Tax Administrators

The effective date of this bill is not specified.

#### Similar Legislation

**House Bill 247** is identical to this bill.

**House Bill 236** would merge the Energy Star and WaterSense Sales Tax Holiday with the Hurricane Preparedness Sales Tax Holiday, so that the two holidays occur each year beginning May 25 and ending May 31, and would remove the sunset date for these holidays.

**House Bill 513** would extend the sunset dates for the Hurricane Preparedness, Energy Star, and WaterSense Sales Tax Holidays from July 1, 2012 to July 1, 2017.

cc : Secretary of Finance

Date: 1/21/2012 KP  
DLAS File Name: HB565F161