

DEPARTMENT OF TAXATION

2013 Fiscal Impact Statement

1. **Patron** Ryan T. McDougale

2. **Bill Number** SB 1101

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax; Moves Date for
Back-to-School Sales Tax Holiday

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would postpone the annual sales tax holiday during which certain school supplies and clothing can be purchased exempt of the Retail Sales and Use Tax from the first weekend in August to the third weekend in August.

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.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **No Fiscal Impact.** (See Line 8.)

8. **Fiscal implications:**

Administrative Costs Impact

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

Revenue Impact

The proposed change in the sales tax holiday dates should have no revenue impact. The bill would not change the number of days on which qualifying property can be purchased exempt of the Retail Sales and Use Tax or make any other substantive changes beyond postponing the holiday from the first weekend in August to the third weekend in August.

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.

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, 2017.

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 addition to Virginia, a number of states held sales tax holidays, during which clothing, school supplies, and in some cases, other similar items were exempted from the state's sales and use tax. The holiday dates ranged from the last weekend in July to the third weekend in August, as demonstrated in the following chart:

| State | Exempt Items | 2012 Date |
|----------------|--|--------------|
| Alabama | Clothing, computers, school supplies, book | August 3-5 |
| Arkansas | Clothing, school supplies | August 4-5 |
| Connecticut | Clothing, footwear | August 19-25 |
| Florida | School supplies, clothing | August 3-5 |
| Georgia | School supplies, clothing, computers | August 10-11 |
| Iowa | Clothing | August 3-4 |
| Louisiana | All tangible personal property | August 3-4 |
| Maryland | Clothing, footwear | August 12-18 |
| Mississippi | Clothing, footwear | July 27-28 |
| Missouri | Clothing, computers, school supplies | August 3-5 |
| New Mexico | Clothing, computers, computer equipment, school supplies | August 3-5 |
| North Carolina | Clothing, school supplies, instructional material, computers | August 3-5 |
| Oklahoma | Clothing | August 3-5 |
| Tennessee | Clothing, school supplies, computers | August 3-5 |
| Texas | Clothing, backpacks, school supplies | August 17-19 |

Proposal

This bill would postpone the sales tax holiday during which certain school supplies and clothing can be purchased exempt of the Retail Sales and Use Tax from the first weekend in August to the third weekend in August.

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 to reflect the changed date of the holiday.

Similar Legislation

Senate Bill 766 and **House Bill 1523** would add gas-powered chainsaws with a selling price of \$350 or less and chainsaw accessories to the list of items that qualify for exemption during the hurricane preparedness sales tax holiday.

cc : Secretary of Finance

Date: 1/14/2013 KP
DLAS File Name: SB1101F161