

# DEPARTMENT OF TAXATION

## 2001 Fiscal Impact Statement

1. **Patron** Cranwell

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Exemption for  
Energy Efficient Appliances

2. **Bill Number** HB 2617

**House of Origin:**

           **Introduced**

           **Substitute**

           **Engrossed**

**Second House:**

  X   **In Committee**

           **Substitute**

           **Enrolled**

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

This bill would create a retail sales and use tax exemption for appliances including clothes washers, dishwashers, and refrigerators that meet or exceed the applicable Energy Star efficiency requirements developed by the United States Environmental Protection Agency and the United States Department of Energy.

This bill would require the Department of Taxation to meet with industry and public interest groups to develop public information programs and materials for this exemption and to report the results to the General Assembly in December 2001.

The exemption provided by this bill would be effective July 1, 2001.

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

#### 6a. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2001-02	(\$1.7 million)	N+F
2001-02	(\$0.5 million)	Local
2002-03	(\$1.9 million)	N+F
2002-03	(\$0.6 million)	Local

7. **Budget amendment necessary:** Yes.

Page 1, Revenue Estimates

## **8. Fiscal implications:**

This bill would have a negative impact on General Fund, Transportation Trust Fund, and local revenues. It is estimated that this bill would have a negative impact on state and local revenues of \$2.2 million (state: \$1.7 million; local: \$0.5 million) for fiscal year 2002 and \$2.5 million (state: \$1.9 million; local: \$0.6 million) for fiscal year 2003. The revenue estimates assume an effective date of July 1, 2001.

The fiscal impact of this bill was calculated based on the methodology that follows: The ratio of Virginia households to total households in the United States was calculated. This ratio was applied to the total number of units (washing machines, dishwashers, and refrigerators) sold to appliance distributors nationwide in 1996 to determine the number of units sold at retail in Virginia. Estimated growth rates for retail sales of washing machines, dishwashers, and refrigerators were then factored into the 1996 sales figures to project future retail sales. The percentage of washing machines, dishwashers, and refrigerators that meet Energy Star requirements were then applied to total projected sales of these appliances to determine the number of appliances sold that would qualify for this exemption. The projected number of qualifying appliance sales was then multiplied by an average cost to determine the estimated amount of exempt sales.

Energy Star efficiency requirements are expected to become more stringent in the future. Therefore, the percentages used to calculate the percentage of appliance sales qualifying for exemption are lower than current percentages of such appliances. If this assumption were not made, the revenue impact of this bill would increase.

## **9. Specific agency or political subdivisions affected:**

Department of Taxation

## **10. Technical amendment necessary:** Yes.

The following technical amendment is suggested to make the effective date in the first enactment clause consistent with the effective date in the third enactment clause:

Page 2, Line 56, After: Beginning  
Strike: July 1, 2001,  
Insert: July 1, 2002,

## **11. Other comments:**

This bill would provide a sales and use tax exemption for appliances including clothes washers, dishwashers, and refrigerators that meet or exceed the applicable Energy Star efficiency requirements developed by the United States Environmental

Protection Agency and the United States Department of Energy.

This bill may allow an exemption for other types of appliances if the appliances meet applicable Energy Star efficiency requirements. The revenue estimates were based on sales of washing machines, dishwashers, and refrigerators only. The Department of Taxation would need to identify those appliances that qualify for exemption when conducting compliance audits or reviewing refund claims related to sales and purchases of clothes washers, dishwashers, refrigerators, and other qualifying appliances. If the record of the transaction does not identify an appliance that qualifies for this exemption, the transaction would be subject to sales and use tax.

The Department of Taxation would be required to meet and consult with manufacturers, retailers, and public interest groups to develop public information programs and materials for this exemption. The Department would be required to report the results to the General Assembly in December 2001.

cc: Secretary of Finance

**Date:** 2/7/01/GRM

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