

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Mary Margaret Whipple

2. **Bill Number** SB 63

3. **Committee** Senate Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales Tax and Motor Vehicle Sales  
Tax Refunds: Refund and Grant  
Provisions for Energy Efficient Products

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would 1) authorize retail sales tax refunds for certain energy efficient property and products; 2) authorize motor vehicle sales tax refunds for motor vehicle using clean special fuels; 3) establish a Renewable Electricity Production Grant Program and allocate moneys from such fund to corporations producing renewable electricity; and 4) establish a Photovoltaic, Solar, and Wind Energy Utilization Grant Program and allocate moneys from such funds to individuals and corporations installing photovoltaic, solar, or wind energy generators. The retail sales and use tax and motor vehicle sales and use tax refund provisions in this bill would apply to taxes paid on and after January 1, 2007.

The effective date of this bill is not specified.

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

#### 6a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2006-07	(\$857,500)	1	GF
2007-08	(\$302,600)	1	GF
2008-09	(\$177,100)	1	GF
2009-10	(\$180,600)	1	GF
2010-11	(\$184,100)	1	GF
2011-12	(\$184,700)	1	GF

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

Item(s): Page 1, Revenue Estimates  
265, Department of Taxation

## **8. Fiscal implications:**

### **Administrative Costs**

TAX implemented a new Integrated Revenue Management System (IRMS) in August 2005. IRMS replaced TAX's 20-year-old tax processing system. IRMS includes an imaging system, a data entry system, a remittance system, a customer relationship management system, a collections system, an audit system, an Internet suite of systems, and back-office systems that process the registrations of taxpayers and the processing of their returns and payments.

Since the implementation, there has been a significant software modification to implement 2005 legislative changes. In addition, other necessary enhancements to the system have been developed. Other additional software releases are planned throughout the summer of 2006.

The modifications to IRMS necessary to allow TAX to process the anticipated level of sales tax refunds would require changes to virtually **all** of the IRMS subsystems. While TAX can begin work to implement this bill to be effective January 1, 2007, TAX would not be able to issue refunds until July 1, 2007.

Taxpayers would still qualify for a sales tax refund on qualifying purchases made on and after January 1, 2007. TAX would accumulate those refunds filed between January 1, 2007 and June 30, 2007 and would process such requests on or after July 1, 2007. Refunds filed for sales and use taxes paid on qualifying purchases after July 1, 2007 would be processed as received. Limitations regarding the time limitation for filing refund claims would be based on the date the claim is filed, not the date the refund is processed.

If this bill is passed, TAX will incur administrative cost of \$857,477 in FY 2007, \$302,631 in FY 2008, \$177,111 in FY 2009, \$180,606 in FY 2010, \$184,117 in FY 2011, and \$184,693 in FY 2012 to make the necessary systems and forms changes.

### **Revenue Impact**

While the exact revenue impact of the state and local retail sales and use tax refund provision is unknown, the revenue loss is estimated to be in excess of \$25 million per year. This estimate is based on the Virginia share of Energy Star appliances sold; national unit sales of refrigerators, washers, freezers, air conditioning units and dishwashers; information received from the Energy Information Association on geothermal heat pumps and on information from the Air-Conditioning and Refrigeration institute, and the U.S. Appliance Industry. For purposes of this estimate, it was assumed that that one-fourth of Virginia's total shipment of appliances would qualify for the sales tax refund. This estimate does not include fuel cells or electric heat pump hot water heaters.

Data regarding the motor vehicle sales tax paid on special fuel motor vehicles is not available. Using national data regarding the average price of special fuel vehicles and the data supplied by DMV regarding the number of special fuel vehicles registered in Virginia, it is estimated that the annual revenue loss would be approximately \$287,000.

There is no revenue impact associated with creating the Renewable Electricity Production Grant Program and the Photovoltaic, Solar, and Wind Energy Utilization Program. These programs would consist of such moneys as may be appropriated by the General Assembly from time to time.

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

Department of Taxation  
Department of Motor Vehicles  
Department of Mines, Minerals, and Energy

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

To correct a drafting error, the following technical amendment is suggested:

Page 2, Line 89, after the word: kilowatt  
Insert: hour

In order to allow TAX begin issuing refunds on and after July 1, 2007, the following amendment is requested:

Page 4, Line 235, At the end of the line.

Insert: 3. For all refunds of state and local retail sales and use taxes claimed on or after January 1, 2007, but before July 1, 2007, the Department of Taxation is authorized to issue such refunds on and after July 1, 2007.

Page 4, Line 236  
Strike: 3  
Insert: 4

Page 4, Line 240  
Strike: 4  
Insert: 5

**11. Other comments:**

Retail Sales and Use Tax Refunds

*Generally*

Persons or organizations making purchases of qualifying energy efficient property are entitled to a refund of the amount of state and local retail sales and use tax paid on such purchases made on or after January 1, 2007. Refund claims filed between January 1, 2007 and June 30, 2007 would be processed on or after July 1, 2007. Refund claims filed for sales and use taxes paid on qualifying purchases after July 1, 2007 would be processed as received. Persons and organizations may apply to the Department of Taxation for a sales tax refund for a portion of the sales taxes paid on the following items:

- Washers, air-conditioners, dishwashers, and refrigerators that meet or exceed the applicable energy star efficiency requirements developed by the U.S. Environmental Protection Agency, and the U.S. Department of Energy;
- Fuel Cells that (i) generate electricity and heat using an electrochemical process, (ii) has an electricity-only generation efficiency greater than 30 percent, and (iii) has a generating capacity of at least two kilowatts;
- Natural gas heat pump that has a coefficient of performance of at least 1.25 for heating and at least 0.70 for cooling;
- Electric heat pump hot water heaters that yield as energy factor of at least 2.0;
- Electric heat pump that has a heating system performance factor of at least 8.0 and a cooling seasonal energy efficiency ratio of at least 13.0;
- A closed-loop ground source heat pump with an energy efficiency ratio of at least 14.1;
- An open-loop ground source heat pump with an energy efficiency ratio of at least 16.2;
- A central air-conditioner that has a cooling seasonal energy efficiency ratio of at least 13.5; and
- An advanced natural gas water heater that has an energy factor of at least 0.65.

### *Refund Process*

Persons or organizations requesting refunds are required to submit a sales tax receipt along with a refund application and must be filed with the Department of Taxation within one year from the date in which the sales tax was paid. Refunds may be issued for up to \$500 in sales tax paid for each item. In addition, no person or organization can receive more than \$5,000 in refunds for qualifying items in any calendar year.

The amount of refunds authorized in this bill attributable to the one percent local sales and use tax will be deducted from the respective locality share of the net revenue distributable pursuant to § 58.1-638 and shall occur in the month following the month in which the refund was issued.

### Motor Vehicle Sales Tax

#### *Generally*

This bill would allow a refund for a portion of the motor vehicle sales tax paid on the following motor vehicles:

- Motor vehicles manufactured to use clean special fuels as defined in Virginia Code § 46.2-749.3 and uses such fuels in the vehicle;
- Motor Vehicles converted or retrofitted to use clean special fuels within 180 days of titling the vehicle with the Department of Motor Vehicles and uses such fuels in the vehicle.
- A hybrid gasoline/electric power motor vehicle that is primarily propelled by electric charge.

The motor vehicle sales tax refund authorized in this bill is not authorized for sales taxes paid on mobile offices or manufactured homes.

### *Refund Process*

The refund authorized by this bill to qualifying vehicles will be equal to one-half of the motor vehicle sales tax paid by the motor vehicle owner. The refund will be limited of up to a maximum of \$500 on each qualifying motor vehicle, and no person can receive more than \$5,000 in refunds in any calendar year. The refunds authorized by this bill will be applicable to motor vehicle sales tax paid by owners on or after January 1, 2007, but prior to January 1, 2011.

All claims for refunds shall be submitted on forms as prescribed by the Commissioner of the Department of Motor Vehicles and provide documentation to verify the conversion of retrofitted vehicles took place within 180 of titling. All refund requests must be submitted within one-year from the date on which the motor vehicle sales taxes were paid.

### Renewable Electricity Production Grant Program

This bill would establish the Renewable Electricity Production Grant Fund, to be administered by the Department of Mines, Minerals and Energy, to be used to grant funds to qualifying corporation based on kilowatt-hours of electricity produced after December 31, 2005. The grant amount would be .85 cents for each kilowatt hour of electricity produced by a qualifying corporation at a qualified facility and sold in a calendar year. Grants will be based on kilowatt hours of electricity sold beginning with calendar year 2006 and ending with calendar year 2010.

The Fund will consist of moneys appropriated by the General Assembly as they see fit. This is a nonreverting fund and all moneys remaining in the Fund at the end of a calendar year, including interest, shall remain in the General Fund. If moneys in the Fund are less than the amount of grants to approved applicants, the moneys will be distributed on pro-rata basis. The Department of Mine, Minerals and Energy, by June 30 of each year, determine the amount to be allocated to each qualifying organization and certify to the Comptroller the amount of grant to each eligible corporation. Payments to each qualifying organization shall be made within 60 days of certification. Any qualifying recipient not receiving their full grant for any calendar year, shall be paid the unpaid portion as a first priority in the following fiscal year.

The Department of Mines, Minerals and Energy will establish an application process and grants will not be approved until electricity production has been verified. All application must be filed no later than March 31 of the year following the year in which the grant is requested. Late filings will not be honored and the postmark will determine timeliness.

### Photovoltaic, Solar, and Wind Energy Utilization Grant Program

This bill would establish the Photovoltaic, Solar, and Wind Energy Utilization Grant Fund, to be administered by the Department of Mines, Minerals and Energy, to be used to grant funds to qualifying individuals or corporations for a portion of the cost of photovoltaic property, solar water heating property, or wind-powered electrical generators. The grant

will 15% of the cost of installing such property not to exceed an aggregate total of i) \$2,000 for each system of photovoltaic property; ii) \$1,000 for each system of solar water heating property; and iii) \$1,000 for each system of wind-powered electrical generators. Contractors installing such property on behalf of another person will not be eligible for grants.

The Fund will consist of moneys appropriated by the General Assembly as they see fit. This is a non-reverting fund and all moneys remaining in the Fund at the end of a calendar year, including interest, shall remain in the General Fund. If moneys in the Fund are less than the amount of grants to approved applicants, the moneys will be distributed on pro-rata basis. The Department of Mine, Minerals and Energy, by June 30 of each year, determine the amount to be allocated to each qualifying organization and certify to the Comptroller the amount of grant to each eligible corporation. Payments to each qualifying organization shall be made within 60 days of certification. Any qualifying recipient not receiving their full grant for any calendar year, shall be paid the unpaid portion as a first priority in the following fiscal year.

The Department of Mines, Minerals and Energy will establish an application process for grants. The application must provide the total installed cost of each system of photovoltaic property, solar water heating property, or wind-powered electrical generators placed in service by such individuals or corporation in the following calendar year. All applicable documents shall be available to the Department of Mines, Minerals and Energy in order to verify requests. All application must be filed no later than March 31 of the year following the year in which the grant is requested. Late filings will not be honored and the postmark will determine timeliness.

#### Implementation

This bill provides the Commissioners from the Department of Taxation, Department of Motor Vehicles, and the Department of Mines, Minerals, and Energy will promulgate in accordance with the APA for purposes of implementing the provisions of this bill. The Commissioners will develop voluntary labeling and public information materials to identify eligible products for refund.

#### Similar Bills

**SB 270** would accomplish many of the same purposes as this bill through an exemption for energy efficient products from the retail sales tax, rather than through a refund process.

cc : Secretary of Finance

Date: 01/24/2006 WBS  
SB0063F161