

# DEPARTMENT OF TAXATION

## 2007 Fiscal Impact Statement

1. **Patron** John C. Watkins

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Sales Tax  
Holiday for Energy Efficient Products

2. **Bill Number** SB 867

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would provide an annual four-day "sales tax holiday" during which energy efficient products purchased for noncommercial home or personal use with a sales price of \$2,500 or less per item could be purchased exempt of the Retail Sales and Use Tax. The sales tax holiday would begin each year on the Friday before the second Monday in October and end on the second Monday in October. Qualifying items would be required to meet energy saving efficiency requirements as established by the Environmental Protection Agency and the U.S. Department of Energy. This bill would authorize dealers to absorb the sales and use tax on all other items sold during the same time period, thereby relieving the purchasers of the obligation to pay such tax. Any dealer who absorbed the tax on non-qualifying items would be required to remit such tax to the Tax Commissioner.

The effective date of this bill is not specified.

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

#### 6b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2006-07	\$ 0	GF
	\$ 0	TTF
	\$ 0	Local
2007-08	(\$115,000)	GF
	(\$ 17,000)	TTF
	(\$ 34,000)	Local

2008-09	(\$122,000)	GF
	(\$ 18,000)	TTF
	(\$ 36,000)	Local
2009-10	(\$130,000)	GF
	(\$ 19,000)	TTF
	(\$ 38,000)	Local
2010-11	(\$139,000)	GF
	(\$ 20,000)	TTF
	(\$ 41,000)	Local
2011-12	(\$149,000)	GF
	(\$ 22,000)	TTF
	(\$ 44,000)	Local
2012-13	(\$161,000)	GF
	(\$ 23,000)	TTF
	(\$ 47,000)	Local

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

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**8. Fiscal implications:**

Administrative Costs Impact

TAX has not assigned any administrative costs to this proposal 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. TAX will incur significant administrative costs only if the legislation requires that TAX track the results from this sales tax holiday. 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 \$166,000 in FY 2008, \$176,000 in FY 2009, \$187,000 in FY 2010, \$200,000 in FY 2011, \$215,000 in FY 2012, and \$231,000 in FY 2013. These estimates do not include the loss attributable to sales of ceiling fans, fluorescent light bulbs, and programmable thermostats due to lack of data.

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

TAX

**10. Technical amendment necessary:**

To clarify the effective dates of the sales tax holiday, TAX suggests the following technical amendments:

Page 2, Line 65 after October

Insert: at 12:01 a.m.

Page 2, Line 65 after at,

Strike: midnight

Insert: 11:59 p.m.

**11. Other comments:**

Current Law

The 2006 General Assembly enacted Senate Bill 262 (Chapter 939, 2006 Acts of Assembly), which established an energy policy for the Commonwealth. Senate Bill 262 provided a state personal income tax deduction available in the amount of 20% of the sales tax paid on certain energy efficient equipment or appliances, as well as qualifying fuel cells, gas heat pumps, central air conditions, advanced gas, oil or water heaters, oil fired furnaces, and programmable thermostats. The law currently permits a maximum deduction of \$500.

In addition to the 2006 state personal income tax deduction on energy efficient equipment or appliances, the 2006 General Assembly enacted Senate Bill 571 and House Bill 532 (Chapters 579 and 593, 2006 Acts of Assembly). These bills provided for an annual three-day sales tax holiday to take place during the first weekend in August. Qualifying school supplies with a sales price of \$20 or less per item and qualifying clothing items with a sales price of \$100 or less per item can be purchased exempt of the Retail Sales and Use Tax during the three-day period.

Proposal

This bill would create a "sales tax holiday" for energy efficient products that are purchased for noncommercial home or personal use, and that have a sales price of \$2,500 or less per product. For purposes of this exemption, an energy efficient product is any dishwasher, clothes washer, air conditioner, ceiling fan, incandescent or fluorescent light bulb, dehumidifier, programmable thermostat, or refrigerator, the energy efficiency of which has been designated by the United States Environmental Protection Agency and the United States Department of Energy as meeting or exceeding each such agency's energy saving efficiency requirements or that has been designated as meeting or exceeding such requirements under each such agency's Energy Star Program.

## Impact on Dealers

Virginia dealers making sales of energy efficient products would be required to reprogram their cash registers for the four-day “holiday” period to account for the exempt sales made during this period. Smaller retailers with less sophisticated systems may be unable to reprogram their systems to accommodate the exemption period. In addition, retailers would be required to keep records to prove that the items sold, qualified for the exemption. Retailers may incur significant administrative costs to administer this exemption.

## Other States

The following states offered some form of a “sales tax holiday” specifically for energy efficient or energy saving products in 2006:

**Connecticut:** Connecticut enacted a 13-month sales tax holiday on energy-efficiency products and energy-efficient heating equipment. The holiday runs from June 1, 2006 to June 30, 2007, and applies to consumer purchases of insulation, programmable thermostats, water heater blankets, window film, window and door weather strips, caulking, water heaters, gas furnaces, windows that meet federal Energy Star Standards, and oil furnaces that are at least 85 percent efficient.

**Florida:** Florida provided a 7-day sales tax holiday for the purchase of energy efficient products.

**Georgia:** Georgia provided a sales tax holiday for purchases of energy efficient products of \$1500 or less for noncommercial home or personal use.

## Similar legislation

**House Bill 1678** would provide a sales tax exemption for purchases of certain energy-efficient products with a sales price of \$2,500 or less made during a three-day period each year.

**House Bill 1878** would provide an income tax deduction for individuals who make purchases on or after January 1, 2007 of energy-efficient equipment used for heating, cooling, and providing electricity to their residences. The individual would receive a deduction in the amount of 50% of equipment expenditures, but the deduction could not exceed \$7,500.

**House Bill 2160** would provide an income tax credit for individuals who make purchases on or after January 1, 2007, to individuals who purchase energy efficient equipment for their homes. The individual would receive a credit in the amount of 30% of equipment expenditures, but the amount of the credit could not exceed \$1,500.

**House Bill 2739** would exempt certain energy-efficient products that have been certified as an “energy star” product from sales and use tax.

**Senate Bill 1167** would provide an annual exemption from the Retail Sales and Use Tax, beginning in 2008, on certain hurricane preparedness equipment, purchased from May 25 through May 31. Items available for exemption would include portable generators with a selling price of \$1,000 or less per item and each other article of hurricane preparedness equipment with a selling price of \$60 or less.

**House Bill 1659** and **House Bill 2925** (identical) would add computers and related peripheral equipment to the list of items eligible for exemption during the "sales tax holiday period" which begins each year on the first Friday in August and ends on the Sunday immediately following.

**Senate Bill 2167** would add computer systems with a sale price of \$1,500 or less per system and computers, computer hardware, computer software, and portable calculators with a sales price of \$500 or less per item to the list of items eligible for exemption during the "sales tax holiday period," which begins each year on the first Friday in August and ends on the Sunday immediately following.

**House Bill 2940** would add personal computers and computer printing equipment to the list of items eligible for exemption during the existing sales tax holiday period.

**House Bill 2192** would require that beginning in 2007, retailers report the total sales that were exempt from the retail sales and use tax as a result of the preceding sales tax holiday in August when filing their monthly sales and use tax returns.

cc : Secretary of Finance

Date: 1/21/2007 Initials: KP  
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