

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** L. Scott Lingamfelter

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Expansion of
Energy Star Sales Tax Holiday Period

2. **Bill Number** HB 56

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would expand the time frame for the Energy Star Sales Tax Holiday by adding a four-day period in April, in addition to the current four-day period in October, in which certain Energy Star qualified products with a maximum sales price of \$2,500 could be purchased exempt of the Retail Sales and Use Tax. The additional holiday period would begin each year on the Friday before the second Monday in April and end on the second Monday in April. As with the existing annual Energy Star Sales Tax Holiday that takes place in October, this holiday would expire on July 1, 2012.

Items eligible for exemption under the April sales tax holiday would be identical to those eligible for exemption during the October holiday period, including any dishwasher, clothes washer, air conditioner, ceiling fan, compact 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 requirements under the Energy Star program. In addition, qualifying items would need to be purchased for noncommercial home or personal use.

As with the October Energy Star Sales Tax Holiday, dealers would be permitted 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. The provisions of this bill would expire on July 1, 2012.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	\$0	GF
	\$0	TTF
	\$0	Local

2008-09	(\$109,000) (\$ 16,000) (\$ 32,000)	GF TTF Local
2009-10	(\$111,000) (\$ 16,000) (\$ 32,000)	GF TTF Local
2010-11	(\$113,000) (\$ 17,000) (\$ 33,000)	GF TTF Local
2011-12	(\$115,000) (\$ 17,000) (\$ 34,000)	GF TTF Local
2012-13	(\$117,000) (\$ 17,000) (\$ 34,000)	GF TTF Local
2013-14	(\$120,000) (\$ 18,000) (\$ 35,000)	GF TTF 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 bill 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. 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 at least \$157,000 in FY 2009, \$159,000 in FY 2010, \$163,000 in FY 2011, \$166,000 in FY 2012, \$168,000 in FY 2013, and \$173,000 in FY 2014. To implement this additional sales tax

holiday would necessitate a reduction of an equal amount of general fund support from other areas in the introduced budget.

These forecasts are based on national data for shipments of major home appliances from the Association of Home Appliance Manufacturers, allocated to Virginia using population. The items qualifying for the Energy Star designation in Virginia were estimated from sales data provided by retailers. The number of appliances was then multiplied by the estimated cost per unit and the fraction of the year covered by the holiday. The forecast does not assume an increase in sales attributable to the sales and use tax exemption. The estimated revenue impact does not include the loss attributable to sales of ceiling fans, compact fluorescent light bulbs, and programmable thermostats, due to lack of data.

9. Specific agency or political subdivisions affected:

TAX

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Energy Star Sales Tax Holiday

The 2007 General Assembly enacted House Bill 1678 and Senate Bill 867 (Acts of Assembly 2007, Chapters 176 and 817), which provide an annual exemption from the Retail Sales and Use Tax for the purchase of certain Energy Star qualified products with a maximum sales price of \$2,500 per item. An Energy Star qualified product includes any dishwasher, clothes washer, air conditioner, ceiling fan, compact 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 requirements under the Energy Star program. The current sales tax holiday period begins each year on the Friday before the second Monday in October and ends at midnight on the second Monday in October. The current Energy Star Sales Tax Holiday is set to expire on July 1, 2012.

Energy Efficient Products Income Tax Deduction

The 2006 General Assembly enacted Senate Bill 262 (Acts of Assembly 2006, Chapter 939) 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.

Additional Sales Tax Holidays Currently Offered in Virginia

Sales Tax Holiday for Clothing and School Supplies

The 2006 General Assembly enacted Senate Bill 571 and House Bill 532 (Acts of Assembly 2006, Chapters 597 and 593) providing for an annual three-day sales tax holiday 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, provided that the sales price of 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.

Hurricane Preparedness Sales Tax Holiday

Senate Bill 1167 (Acts of Assembly 2007, Chapter 608) provides an annual exemption, from the Retail Sales and Use Tax, beginning in 2008, for the purchase of certain hurricane preparedness equipment purchased during a seven-day period, beginning on May 25 and ending on May 31. Items eligible for exemption during the seven-day period 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.

Like the existing Energy Star Sales Tax Holiday, both the sales tax holiday for clothing and school supplies and the Hurricane Preparedness Sales Tax Holiday statutes contain provisions authorizing dealers to absorb the sales and use tax on all other items sold during the same time period.

While the holiday for clothing and school supplies has no expiration date, both the current Energy Star Sales Tax Holiday and the Hurricane Preparedness Sales Tax Holiday are set to expire on July 1, 2012.

Proposal

This bill would expand the time frame for the Energy Star Sales Tax Holiday by adding a four-day period in April in addition to the current four-day period in October, in which certain Energy Star qualified products with a maximum sales price of \$2,500 or less per item could be purchased exempt of the Retail Sales and Use Tax. The four-day holiday period would begin each year on the Friday before the second Monday in April and end at midnight on the second Monday in April. Thus, the Energy Star sales tax holidays would occur every six months. The first of the annual holidays would occur beginning April 10, 2009 through April 13, 2009. As with the existing Energy Star Sales Tax Holiday that occurs in October of each year, this holiday would expire on July 1, 2012.

Impact on Dealers

Virginia dealers making sales of qualifying Energy Star products would be required to reprogram their cash registers for an additional 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. Retailers may incur significant administrative costs to administer this exemption.

Other States

Besides Virginia, only one other state offered a sales tax holiday specifically for energy efficient products or energy saving products in 2007. Georgia provided a sales tax holiday in which purchases of energy efficient products for noncommercial home or personal use, with a maximum price of \$1,500 per product could be made exempt of the Retail Sales and Use Tax. In 2006, Florida and Connecticut also offered sales tax holidays for energy efficient products, ranging from seven days to thirteen months.

Similar Legislation

Energy Star Holiday

House Bill 219 is substantively identical to this bill and would expand the time frame for the Energy Star Sales Tax Holiday to include a four-day period in April in addition to the current four-day period in October.

House Bill 794 would remove the requirement that Energy Star products must be purchased for noncommercial home or personal use in order to be exempt from the Retail Sales and Use Tax during the Energy Star Sales Tax Holiday.

House Bill 795 would add WaterSense qualified products to the items that qualify for the exemption provided during the Energy Star Sales Tax Holiday.

House Bill 1229 would add WaterSense products and additional Energy Star products to the Energy Star Sales Tax Holiday exemption. This bill would also add a second four-day Energy Star Sales Tax Holiday period in April when certain such products are exempt from the Retail Sales and Use Tax. Additionally, it would remove the requirement that qualifying items be purchased for noncommercial home or personal use in order to be eligible for exemption during the Energy Star Sales Tax Holiday.

Holiday for Clothing and School Supplies

House Bill 57 and **House Bill 442** (identical) would add computers and related peripheral equipment to the list of items that are exempt from the Retail Sales and Use Tax during the annual three-day sales tax holiday period for clothing and school supplies that takes place each year in August. Computers and related peripheral equipment with a selling price of \$1,500 or less per item could be purchased exempt of the Retail Sales and Use Tax under this bill.

House Bill 263 would add computers and related equipment, rather than computers and related peripheral equipment, with a maximum sales price of \$1,500 per item to the list of property exempt from tax during the school supplies sales and use tax holiday, beginning in 2008.

House Bill 758 would add computers and related equipment to the list of items eligible for exemption during the August sales tax holiday for clothing and school supplies. There is no cap on the cost of computers or related equipment eligible for this exemption.

cc : Secretary of Finance

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