

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Bryce E. Reeves

2. **Bill Number** SB 37

3. **Committee** Senate Finance

House of Origin:

X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax; Removes Sunset
for Textbooks and Other Educational
Materials

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would remove the sunset date for the Retail Sales and Use Tax exemption for textbooks and other educational materials withdrawn from inventory at book-publishing distribution facilities. The exemption applies when such materials are withdrawn for free distribution to professors and other individuals with an educational focus, and is currently set to expire on July 1, 2012.

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 would incur no additional administrative costs if the sunset date of this exemption were removed.

Revenue Impact

There would be no revenue impact associated with removing the sunset date of this exemption because the General Fund revenue forecast assumes the extension of all expiring exemptions.

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

Department of Taxation

10. **Technical amendment necessary:** No.

11. Other comments:

Generally

Under Virginia's sales tax law, retailers and manufacturers are permitted an exemption on purchases of items that become part of their resale inventory. The sales and use tax is collected by the retailer at the time a taxable retail sale is made. The distributor may make exempt purchases of books and educational materials using the resale exemption. However, a retailer or manufacturer that uses an item purchased exempt of the tax for a purpose other than sale or resale is subject to use tax on the cost price of the item.

Generally, withdrawals from inventory by a retailer or manufacturer for donation or free distribution are treated as taxable transactions because these items are not withdrawn from inventory for sale or resale. This constitutes a taxable use by the retailer or manufacturer as discussed above. Taxpayers who make taxable withdrawals from inventory are required to report use tax to the Department, calculated on the cost price of the items withdrawn from inventory.

The exemption for textbooks and other educational materials is an exception to the general requirement that a business pay use tax on inventory withdrawn and donated free of charge. The exemption was first enacted in 1998 with a sunset date, which was extended in 2002, 2004, and 2007.

Proposal

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cc : Secretary of Finance

Date: 1/23/2012 KP
DLAS File Name: SB37F161