

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Bryce E. Reeves

2. **Bill Number** SB 37

3. **Committee** House Finance

House of Origin:

☐ Introduced

☐ Substitute

☐ Engrossed

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

Second House:

☒ In Committee

☐ Substitute

☐ Enrolled

5. **Summary/Purpose:**

This bill would extend the sunset date for the Retail Sales and Use Tax exemption for textbooks and other educational materials withdrawn from inventory at book-publishing distribution facilities from July 1, 2012 to July 1, 2017. The exemption applies when such materials are withdrawn for free distribution to professors and other individuals with an educational focus. The bill would also require the Department of Taxation to submit a report of the foregone revenues and other information to the House Committee on Appropriations and the House and Senate Committees on Finance by November 15th of the year immediately preceding the taxable or calendar year in which the exemption is set to expire.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact is:** Not available (See Line 8.)

8. **Fiscal implications:**

Administrative Costs Impact

This bill would require the Department to submit a report by November 15 of the year before the expiration of this tax exemption. In order to produce the report, the Department would have to begin accumulating data and conducting surveys soon after the bill becomes effective. If present staff is diverted to the proposed study, then the Department would not have the resources to continue performing other critical work. The Department will be submitting an analysis of staffing needs to staff of the money committees in order to obtain the resources necessary to conduct the proposed studies.

Revenue Impact

There is no revenue impact associated with extending the sunset date because the General Fund revenue forecast assumes the extension of all expiring exemptions. The

report required by this bill may influence future legislative action, which could subsequently impact state or local revenue.

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: 2/14/2012 KP
DLAS File Name: SB37FE161