

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** James M. LeMunyon

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Sales Tax
Holiday; Clothing and School Supplies

2. **Bill Number** HB 430

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase from \$20 to \$50 the maximum sales price for school supplies eligible for exemption during the three-day sales tax holiday in August.

Current law provides a three-day "sales tax holiday" period, which takes place each year on the first Friday in August and ends on the following Sunday, during which school supplies with a maximum sales price of \$20 per item and clothing with a maximum sales price of \$100 per item can be purchased exempt of the Retail Sales and Use Tax.

The effective date of this bill is not specified.

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

7. **Fiscal Impact Estimates are:** Tentative. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs Impact

The Department of Taxation ("the Department") considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

This bill is estimated to reduce state and local revenues by approximately \$140,000 in Fiscal Year 2015, \$144,000 in Fiscal Year 2016, \$150,000 in Fiscal Year 2017, \$155,000 in Fiscal Year 2018, \$160,000 in Fiscal Year 2019, and \$166,000 in Fiscal Year 2020. The estimate is based on the Department's estimate released in 2006 impacting a proposal for the currently existing sales tax holiday, with the \$20 school supply threshold. The Department estimated that exemption would result in a total state and local revenue loss of \$4.1 million in Fiscal Year 2007, updated using data from the 2007 Economic Census Product Line Statistics.

In order to provide a more definitive impact of a change in the price threshold for exempt sales of school supplies, item-level detail, including price and quantity sold, would be required. Given the uncertainty surrounding the 2006 estimate and the assumptions used in this bill, this estimate should be considered highly tentative.

2013 House Bill 2313 commits discretionary General Fund revenue to the Highway Maintenance and Operating Fund (“HMOF”) beginning in Fiscal Year 2014. The commitment increases incrementally by 10% in Fiscal Year 2015 and 2016, and by 5% in Fiscal Year 2017. The commitment percentage remains at the 2017 rate for subsequent years. However, if Congress does not enact legislation granting states remote collection authority by January 1, 2015, the revenue dedicated to the HMOF will not increase after Fiscal Year 2015

The December 2013 Transportation Sales Tax Forecast assumes that Congress will not enact federal remote collection authority legislation prior to the deadline, and that the commitment to the HMOF will remain at the Fiscal Year 2015 rate for subsequent years. The following chart shows the estimated commitment of General Fund revenues to the HMOF under the current forecast of 2013 House Bill 2313 and this bill assuming that Congress does not grant states authority for remote seller collection:

Scenario #1 – Congress does not grant remote collection authority

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Total Sales and Use Tax	-140,000	-144,000	-150,000	-155,000	-160,000	-166,000
GF-Unrestricted	-57,000	-58,000	-60,000	-62,000	-64,000	-66,000
GF-Restricted	-28,000	-29,000	-30,000	-31,000	-32,000	-33,000
Transportation	-20,000	-20,000	-21,000	-22,000	-23,000	-23,000
Local Option	-25,000	-26,000	-27,000	-27,000	-28,000	-29,000
HMOF (GF transfer)	-1,000	-3,000	-3,000	-3,000	-3,000	-3,000
Regional Trans. Funds (0.7%)	-9,000	-9,000	-10,000	-10,000	-10,000	-11,000
Hampton Roads (TPO)	-3,000	-3,000	-3,000	-3,000	-4,000	-4,000
Northern Virginia (NVTA)	-6,000	-6,000	-6,000	-7,000	-7,000	-7,000

The following chart shows the estimated commitment of General Fund revenues to the HMOF for this bill assuming that federal remote collection authority legislation is enacted by the deadline:

Scenario #2 – Congress grants remote collection authority

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Total Sales and Use Tax	-140,000	-144,000	-150,000	-155,000	-160,000	-166,000
GF-Unrestricted	-57,000	-58,000	-59,000	-60,000	-62,000	-64,000
GF-Restricted	-28,000	-29,000	-30,000	-31,000	-32,000	-33,000
Transportation	-20,000	-20,000	-21,000	-22,000	-23,000	-23,000
Local Option	-25,000	-26,000	-27,000	-27,000	-28,000	-29,000
HMOF (GF transfer)	-1,000	-3,000	-4,000	-5,000	-5,000	-5,000
Regional Trans. Funds (0.7%)	-9,000	-9,000	-10,000	-10,000	-10,000	-11,000
Hampton Roads (TPO)	-3,000	-3,000	-3,000	-3,000	-4,000	-4,000
Northern Virginia (NVTa)	-6,000	-6,000	-6,000	-7,000	-7,000	-7,000

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

In 2006, the General Assembly enacted legislation providing for an annual three-day sales tax holiday for clothing and school supplies, 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 period, provided that the sales price for 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.

In addition to school related items, the law also permits dealers to elect to absorb the cost of the sales tax during the three-day exemption period. A dealer may elect to absorb the sales and use tax on the sale of any product and is not limited to absorbing the tax on the items eligible for the sales tax exemption. During this period, a dealer may advertise that he will absorb the sales and use tax without violating the general prohibition against doing so.

As mandated by the law, in 2006 the Department developed its first set of sales tax holiday guidelines, which identified school supply items that would qualify for exemption during the sales tax holiday and described scenarios in which the exemption would not apply. Given the nature of the qualifying items and the timing of the holiday period, the three-day exemption period was quickly coined a “back-to-school” holiday, despite the fact that some of the eligible items were not, in fact, school-related.

Other Sales Tax Holidays Currently Offered in Virginia

Hurricane Preparedness Sales Tax Holiday: Enacted during the 2007 legislative session, this law provides an annual seven-day period in May during which certain hurricane preparedness equipment can be purchased exempt from the sales and use tax. Items eligible for exemption during the holiday include portable generators with a selling price of \$1,000 or less per item, gas-powered chainsaws with a sales price of \$350 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. This holiday is set to expire on July 1, 2017.

Energy Star and WaterSense Sales Tax Holiday: Enacted during the 2007 legislative session and expanded in 2008, this law provides an annual exemption from the Retail Sales and Use Tax for the purchase of certain Energy Star and WaterSense qualified products purchased during a four-day period in October. Items eligible for exemption during this holiday include dishwashers, clothes washers, air conditioners, ceiling fans, compact fluorescent light bulbs, dehumidifiers, programmable thermostats, and refrigerators, provided such items are designated by the United States Environmental Protection Agency and the United States Department of Energy as “Energy Star.” The exemption also extends to bathroom sink faucets, faucet accessories, toilets, and showerheads that have been designated as WaterSense by the Environmental Protection Agency. Qualifying Energy Star and WaterSense products must cost \$2,500 or less per item and be purchased for noncommercial home or personal use. The holiday is set to expire on July 1, 2012.

Other States

In addition to Virginia, a number of states held school-related sales tax holidays in 2013, during which clothing, school supplies, and in some cases, other similar items were exempted from the state’s sales and use tax, as demonstrated in the following chart:

State	Days	Items Included and Maximum Cost
Alabama	3	Clothing, \$100 Computers, \$700 School supplies,\$50 Books, \$30
Arkansas	2	Clothing, \$100 School supplies
Connecticut	7	Clothing/footwear, \$300
Florida	3	School supplies, \$15 Clothing, \$75 Computer, \$750
Iowa	2	Clothing, \$100
Louisiana	2	All tangible personal property, \$2,500
Maryland	7	Clothing/footwear, \$100
Massachusetts	2	All tangible personal property, \$2,500
Mississippi	2	Clothing/footwear, \$100
Missouri	3	Clothing, \$100 Computers, \$3,500 School supplies, \$50
New Mexico	3	Clothing, \$100 Computers,\$1,000 Computer equipment, \$500 School supplies, \$30
North Carolina	3	Clothing, \$100 School supplies, \$100 Instructional material,\$300; Computers, \$3,500 Other computer equipment, \$250; Sports equipment, \$50
Oklahoma	3	Clothing, \$100
South Carolina	3	Clothing; School supplies; Computers; Other
Tennessee	3	Clothing, \$100 School supplies, \$100; Computers, \$1,500
Texas	3	Clothing/backpacks/school supplies, \$100

The effective date of this bill is not specified.

Similar Legislation

House Bill 960 would decrease from \$100 to \$80 the maximum sales price for each article of clothing eligible for exemption during the August sales tax holiday, add computers with a sales price of \$500 and computer supplies to the list of qualifying items, and clarify that the eligible clothing must be considered the type of item that a student would normally wear to school on a regular basis.

cc : Secretary of Finance

Date: 1/17/2014 KP
DLAS File Name: HB430F161