

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** Tony O. Wilt

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Sales Tax
Holiday; Adds Computers

2. **Bill Number** HB 960

House of Origin:

 Introduced

 X **Substitute**

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

The Department understands that the patron intends to introduce a substitute bill. This impact statement addresses the substitute bill.

This bill would expand the items qualifying for exemption during the “sales tax holiday” for school supplies and clothing to include laptop and desktop computers and tablets with a maximum sales price of \$500. Computer supplies and computer hardware or software would be excluded. The bill would also decrease the maximum sales price amount for qualifying articles of clothing and footwear from \$100 to \$70 per item and would restrict qualifying clothing to include only those items that a student would normally wear to school on a regular basis.

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:** Preliminary. (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

The Department estimates that this bill would be revenue neutral. The revenue gained from decreasing the clothing threshold and restricting qualifying clothing to items commonly worn by students in a school setting will offset the revenue loss from including laptop and desktop computers with a maximum sales price of \$500.

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, while some ineligible items could be used in a school setting. For example, the Department’s current Guidelines exclude school computer supplies, such as computer storage media, printers, and printer supplies. Further, included among the list of qualifying clothing items in the Department’s guidelines are aprons, bathing suits, costumes, formal wear, lingerie, night gowns, robes, wedding apparel, and veils. These items are not worn conventionally in a normal school setting.

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/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

Proposal

This bill would expand the items qualifying for exemption during the “sales tax holiday” for school supplies and clothing to include desktop and laptop computers and tablets with a maximum sales price of \$500. Computer supplies and computer hardware and software would be excluded. The bill would also decrease the maximum sales price amount for qualifying articles of clothing and footwear from \$100 to \$70 per item. Finally, the bill would restrict qualifying clothing to clothing that reasonably could be considered the type of item that a student would normally wear to school on a regular basis, including items normally worn by students only under specific weather conditions. Thus, aprons, athletic supporters, bathing suits, costumes, lingerie, robes, formal wear and wedding apparel would be among the list of items that would no longer qualify for exemption during the holiday period.

The effective date of this bill is not specified.

Similar Legislation

House Bill 430 would increase from \$20 to \$50 the maximum sales price for school supplies eligible for exemption during the August sales tax holiday.

cc : Secretary of Finance

Date: 1/27/2014 KP
DLAS File Name: HB960F161