



Notice of Intended Regulatory Action (NOIRA) Agency Background Document

Agency name	Department of Taxation
Virginia Administrative Code (VAC) citation	23 VAC 10-210-310
Regulation title	Chapter 210-Retail Sales and Use Tax
Action title	Churches
Date this document prepared	October 16, 2006

This information is required for executive branch review and the Virginia Registrar of Regulations, pursuant to the Virginia Administrative Process Act (APA), Executive Orders 21 (2002) and 58 (1999), and the *Virginia Register Form, Style, and Procedure Manual*.

Purpose

Please describe the subject matter and intent of the planned regulatory action. Also include a brief explanation of the need for and the goals of the new or amended regulation.

Virginia Administrative Code Cite	Virginia Code Cite	Chapter	Proposed change and rationale
23VAC10-210-310	§ 58.1-609.10(16)	Chapter 338 (2006)	Include as exempt tangible personal property that is purchased by churches for use in recording and reproducing religious worship services.

Legislation enacted by the General Assembly (Chapters 757 and 758, Acts of Assembly 2003) altered the process by which nonprofit organizations could obtain Virginia retail sales and use tax exemptions. Prior to that time, nonprofit organizations were required to seek new sales tax exemptions through the legislature. The above referenced legislation altered the process, effective July 1, 2004, such that all Internal Revenue Code (IRC) § 501(c)(3) and charitable § 501(c)(4) organizations could at that time qualify for a sales tax exemption provided the criteria established by the 2003 legislation were met. The new legislation established that TAX would administer this process.

The 2005 Virginia General Assembly clarified the law so that churches could continue to use their self-issued exemption certificates without having to apply to TAX under the new process. The "Churches" regulation must be amended to reflect this clarification in legislation, by adding language which explains

that, although most nonprofit organizations must adhere to a new process in order to obtain their exemptions, churches are free to continue to use self-issued exemption certificates.

Prior to 2006, an exemption from the retail sales and use tax was available for certain purchases made by nonprofit churches exempt under § 501(c)(3) of the Internal Revenue Code. The law explicitly excluded “tangible personal property that is used in any form for recording and reproducing services” from the list of items that were covered under the exemption. Legislation enacted by the General Assembly (Chapter 338, 2006 Acts of Assembly) added tangible personal property used by a church for recording and reproducing services to the list of exempt items.

This regulatory action is necessary to ensure a predictable and adequate revenue stream for the government to provide for the health, safety and welfare of its citizens.

Legal basis

Please identify the state and/or federal legal authority to promulgate this proposed regulation, including (1) the most relevant law and/or regulation, including Code of Virginia citation and General Assembly chapter number(s), if applicable, and (2) promulgating entity, i.e., agency, board, or person. Describe the legal authority and the extent to which the authority is mandatory or discretionary.

Code of Virginia § 58.1-203 provides that the “Tax Commissioner” shall have the power to issue regulations relating to the interpretation and enforcement of the laws of this Commonwealth governing taxes administered by the Department.” The authority for the current regulatory action is discretionary.

Need

Please detail the specific reasons why the agency has determined that the proposed regulatory action is essential to protect the health, safety, or welfare of citizens. In addition, delineate any potential issues that may need to be addressed as the regulation is developed.

Government must have predictable and adequate revenue to provide for the health, safety and welfare of its citizens. Tax regulations enhance customer service and voluntary compliance. The interpretations, examples, and other guidance in tax regulations ensure uniform application of the tax laws to taxpayers. Business taxpayers in particular find regulations essential in predicting the tax consequences of transactions and avoiding unanticipated tax assessments as the result of audits. Tax regulations also ensure that audits and other compliance activity cause the assessment and collection of the correct amount of tax.

Substance

Please detail any changes that will be proposed. For new regulations, include a summary of the proposed regulatory action. Where provisions of an existing regulation are being amended, explain how the existing regulation will be changed.

This regulation will be revised to clarify the application of the sales and use tax to churches, which are permitted to continue to use their self-issued exemption certificates, rather than apply for new exemptions from the Department of Taxation under the new nonprofit exemption process, and to include as exempt

from the retail sales and use tax a church's purchase of tangible personal property used in any form for recording and reproducing services.

Alternatives

Please describe all viable alternatives to the proposed regulatory action that have been or will be considered to meet the essential purpose of the action. Also, please describe the process by which the agency has considered or will consider other alternatives for achieving the need in the most cost-effective manner.

The Department considered alternatives to the proposed regulatory action. Doing nothing would leave the regulation inconsistent with the statute. Repealing the regulation would reduce the level of customer service and, as a result, tend to reduce the level of voluntary compliance with the tax laws. Audit and compliance activity would produce less uniform results and would be much less effective in enforcing the tax laws.

Since 1980, administrative interpretations of the tax laws that are not in the form of published rulings or a regulation have not been admissible as evidence in court. Code of Virginia § 58.1-205. Even published "rulings and policies themselves are not entitled to great weight, unless expressed in regulations." *Chesapeake Hospital Authority v. Commonwealth*, 262 Va. 551, 554 S.E.2d 55 (2001). Therefore, to ensure enforcement, it is necessary to promulgate regulations containing the Tax Commissioner's interpretations of the tax laws.

Public participation

Please indicate the agency is seeking comments on the intended regulatory action, to include ideas to assist the agency in the development of the proposal and the costs and benefits of the alternatives stated in this notice or other alternatives. Also, indicate whether a public hearing is to be held to receive comments on this notice.

TAX is seeking comments on the intended regulatory action, including but not limited to 1) ideas to assist in the development of a proposal, 2) the costs and benefits of the alternatives stated in this background document or other alternatives and 3) potential impacts of the regulation. TAX is also seeking information on impacts on small businesses as defined in § 2.2-4007.1 of the Code of Virginia. Information may include 1) projected reporting, recordkeeping and other administrative costs, 2) probable effect of the regulation on affected small businesses, and 3) description of less intrusive or costly alternative methods of achieving the purpose of the regulation.

Anyone wishing to submit written comments may do so at the public hearing or on the Town Hall Public Comment Forum for this action or by email to the agency contact person listed on the Town Hall for this regulatory action. In order to be considered, comments must be received by the last day of the public comment period.

A public hearing will be held and notice of the hearing may be found on the Virginia Regulatory Town Hall website (www.townhall.virginia.gov) and can be found in the Calendar of Events section of the Virginia Register of Regulations. Both oral and written comments may be submitted at that time.

Participatory approach

Please indicate, to the extent known, if advisers (e.g., ad hoc advisory committees, technical advisory committees) will be involved in the development of the proposed regulation. Indicate that 1) the agency is not using the participatory approach in the development of the proposal because the agency has authorized proceeding without using the participatory approach; 2) the agency is using the participatory approach in the development of the proposal; or 3) the agency is inviting comment on whether to use the participatory approach to assist the agency in the development of a proposal.

TAX will use the participatory approach to develop the proposal if it receives at least 10 written requests to use the participatory approach prior to the end of the public comment period. Persons requesting TAX to use the participatory approach and interested in assisting in the development of a proposal should contact the agency contact person listed for this regulatory action on the Town Hall. Notification of the composition of the advisory committee will be sent to all applicants.

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Family impact

Assess the potential impact of the proposed regulatory action on the institution of the family and family stability including to what extent the regulatory action will: 1) strengthen or erode the authority and rights of parents in the education, nurturing, and supervision of their children; 2) encourage or discourage economic self-sufficiency, self-pride, and the assumption of responsibility for oneself, one's spouse, and one's children and/or elderly parents; 3) strengthen or erode the marital commitment; and 4) increase or decrease disposable family income.

This regulatory action is not expected to have an impact on family, formation, stability and autonomy.