



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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**23 VAC 10-210 – Retail Sales and Use Tax**  
**Department of Taxation**  
June 11, 2008

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### **Summary of the Proposed Amendments to Regulation**

The proposed regulations will clarify in the regulations the application of retail and use tax to maintenance contracts.

### **Result of Analysis**

The benefits likely exceed the costs for all proposed changes.

### **Estimated Economic Impact**

The application of retail sales and use tax to maintenance contracts was amended by legislation in 1994<sup>1</sup> to be effective January of 1996. However, the regulations have never been updated to reflect the 1994 legislative change. The proposed regulations will merely amend the regulatory language to clarify that only one-half of the total charge for maintenance contracts that provide labor and materials is subject to sales and use tax. Prior to the 1994 legislative change, the full amount of the charge for maintenance contracts that provide labor and materials was subject to sales and use tax.

Because the proposed changes have been already in effect since 1994 under the statutory language, no significant economic effect is expected. However, updating the current language in the regulations that is in direct conflict with the statute and the current policy enforced in practice is expected to create net benefits in terms of potential costs that could have surfaced from inaccurate regulatory language.

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<sup>1</sup> Senate Bill 28, Chapter 595, 1994 Acts of Assembly.

## **Businesses and Entities Affected**

The proposed regulations apply to maintenance contracts that provide labor and materials.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

## **Projected Impact on Employment**

No significant impact on employment is expected.

## **Effects on the Use and Value of Private Property**

No significant impact on the use and value of private property is expected.

## **Small Businesses: Costs and Other Effects**

No significant costs and other effects on small businesses are expected.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

No adverse impact on small businesses is expected.

## **Real Estate Development Costs**

No adverse impact on real estate development costs is expected.

## **Legal Mandate**

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other

administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.