

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Bryce E. Reeves

3. **Committee** Senate Finance and Appropriations

4. **Title** Retail Sales and Use Tax; Exemption for Government Contractors

2. **Bill Number** SB 572

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. **Summary/Purpose:**

This bill would provide a retail sales and use tax exemption for tangible personal property reasonably necessary for use or consumption by a contractor in connection with a contract with the Commonwealth, any political subdivision of the Commonwealth, or the United States to make public improvements to real property owned by such governmental entity or real property to which title shall pass to the governmental entity upon completion of such contract.

Under current law, contractors generally pay sales and use tax on materials, supplies, and equipment they purchase for use in real property contracts unless a specific exemption applies.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026. This bill would provide that it would not apply to any sale or use of tangible personal property occurring prior to its enactment.

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

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

8. **Fiscal implications:**

Administrative Costs

This bill would have no impact on local administrative costs. The Department of Taxation (“the Department”) considers implementation of this bill as routine, and does not require additional funding.

This legislation does not require any significant changes to the Department's systems and is not impacted by the Integrated Revenue Management System (IRMS) replacement project. No resource constraints or implementation considerations are anticipated.

Revenue Impact

The bill would result in a significant but unknown loss of state and local revenue. At this time, the Department is unable to survey the number of projects this bill could apply to across localities as well as at the state and federal levels. Therefore, the revenue loss is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Background

Virginia law generally treats sellers and installers of tangible personal property that becomes real property after installation as contractors. As such, purchases of tangible personal property made by such contractors are deemed purchases for the ultimate consumer. The law makes an exception for retailers who sell and install certain specified items, including fences, venetian blinds, window shades, awnings, storm windows and doors, floor coverings, cabinets, countertops, kitchen equipment, window air conditioning units, or other like or comparable items. Provided these individuals maintain a retail or wholesale place of business and an inventory of the items set forth above, and provided they perform installation as part of or incidental to the sale of the items set forth above, they are deemed retailers, and are authorized to collect Retail Sales and Use Tax from their customers on the sale of these items. Separately stated installation charges are exempt from the tax. If a person does not meet all three requirements of a retailer, as set forth above, he will be deemed a contractor and must pay the sales tax on such items at the time of purchase or accrue use tax, even if he is making sales of fences, venetian blinds, or any of the items separately identified above. This policy applies whether the seller and installer are also a fabricator of the tangible personal property items listed above.

While retailers are generally treated differently from contractors with respect to the Retail Sales and Use Tax, both retailers and contractors are deemed the users or consumers of supplies used in installing tangible personal property that becomes real property after installation. Therefore, retailers and contractors must pay tax on their purchases of tacks, stripping, glue, cement, and other supplies they purchase.

Proposal

This bill would provide a retail sales and use tax exemption for tangible personal property reasonably necessary for use or consumption by a contractor in connection with a contract with the Commonwealth, any political subdivision of the Commonwealth, or the United States to make public improvements to real property owned by such governmental entity or real property to which title shall pass to the governmental entity upon completion of such contract.

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cc : Secretary of Finance

Date: 01/27/2026 KS
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