

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Eric R. Zehr

3. **Committee** House Finance

4. **Title** Tax on electronic distribution of material harmful to minors

2. **Bill Number** HB 720

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

The bill would impose a tax at the rate of 10 percent on the gross receipts of any commercial entity operating an adult website for all sales, distributions, memberships, subscriptions, performances, and other content amounting to material harmful to minors that is produced, sold, filmed, generated, or otherwise based in the Commonwealth. Revenues collected from the tax would be deposited into the Behavioral Health and Developmental Services Trust Fund.

Under current law, material harmful to minors is generally subject to the sales and use tax. The sales tax is usually collected from consumers by retail merchants.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

6. Budget amendment necessary: Yes.

Page 1, Revenue Estimates

Item(s): 261 and 263

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

7a. Expenditure Impact:

| Fiscal Year | Dollars | Positions | Fund |
|--------------------|----------------|------------------|-------------|
| 2026-27 | \$130,136 | 1 | GF |
| 2027-28 | \$ 69,800 | 1 | GF |
| 2028-29 | \$ 69,800 | 1 | GF |

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures as shown above. Such costs would primarily consist of the costs to design the new excise tax form and program the new tax type in the Department’s systems, and for one additional full-time employee to administer the new tax.

The Department requests a delayed effective date of July 1, 2027, due to the system changes required by this legislation and resource commitments associated with the Integrated Revenue Management System (IRMS) replacement project. Changes needed to implement this bill would impact work in progress for the first rollout of the new system scheduled for September 2026. For more information on the new system implementation releases, see the [2025 Status Report on the Replacement of the Integrated Revenue Management System](#) (IRMS).

This bill would have no impact on local administrative costs.

Revenue Impact

The bill would result in an unknown gain to the Behavioral Health and Developmental Services Trust Fund. This bill would have no impact on local revenues.

Using data from the Industry Business Information System ("IBIS World") and applying a 10 percent tax rate to estimated taxable sales in Virginia, the Department was able to develop the following speculative estimate:

| | FY 2027* | FY 2028 | FY 2029 | FY 2030 | FY 2031 | FY 2032 |
|----------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| Material Harmful to Minors | \$3.10 | \$3.40 | \$3.50 | \$3.60 | \$3.60 | \$3.70 |

* For the effective date of July 1, 2026, FY 2027 impact would be 11/12 months impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

Department of Behavioral Health and Developmental Services

10. Technical amendment necessary: No.

11. Other comments:

Background

Under current law, material harmful to minors is generally subject to the sales and use tax. The sales tax is usually collected from consumers by retail merchants.

Proposal

The bill would impose a tax at the rate of 10 percent of the gross receipts of any commercial entity operating an adult website for all sales, distributions, memberships, subscriptions, performances, and other content amounting to material harmful to minors that is produced, sold, filmed, generated, or otherwise based in the Commonwealth. Revenues from the tax would be deposited into the Behavioral Health and Developmental Services Trust Fund.

"Adult website" means a website, application, or digital or virtual platform that uses the internet to facilitate the dissemination of pictures, videos, or other content, a substantial portion of which is material harmful to minors.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

cc : Secretary of Finance

Date: 02/07/2026 KS
HB720F161