

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Day

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: Authorize
Localities To Increase Local Retail Sales
and Use Tax Rate by 1%

2. **Bill Number** HB 2248

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize any city or county to impose an additional 1% local retail sales and use tax. The revenue generated by the additional tax would be used solely to build and maintain roads within a locality's planning district.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

Expenditure Impact – While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because TAX is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, TAX is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably in both houses and prior to the conference committee report. Other administrative costs to implement this bill would be minimal.

Revenue Impact - The levy of an additional 1% local retail sales and use tax would increase local revenues. The magnitude of the increase is dependent on how many and which localities exercise their option. Revenues returned to the localities in FY 2000 from the current 1% local option sales and use tax totaled \$741 million. If all localities

had been able by option to impose the additional 1% local retail sales and use tax, revenues would have doubled.

9. Specific agency or political subdivisions affected:

Department of Accounts
Department of Taxation
Department of the Treasury
All cities and counties

10. Technical amendment necessary: Yes.

As drafted, this bill amends Code of Virginia §§ 58.1-605 and 58.1-606, which relate to what extent and under what conditions cities and counties may levy a local sales or use tax, respectively. To correct the reference under § 58.1-606 to “use tax,” the following technical amendment is suggested:

Page 2, Line 103, at the beginning of the line
Strike: retail sales
Insert: use

11. Other comments:

In 1966, Code of Virginia § 58-441.49 was enacted to allow for the council of any city and the governing body of any county to impose a general retail sales tax of one percent. In 1968, the Code of Virginia was again amended to enact § 58-441.49:1 to allow for the council of any city and the governing body of any county to impose a one percent use tax.

All localities in the Commonwealth currently impose a 1% local retail sales and use tax which is collected and remitted in the same manner as the 3.5% state retail sales and use tax.

This bill would authorize cities and counties to impose an additional local one percent retail sales and use tax. This would increase the combined retail sales and use tax rate (state and local) from 4.5% to 5.5%, with 2% being the local option retail sales and use tax distributed back to the localities. Revenues generated by the additional one percent tax authorized by this bill would be used solely for the construction or maintenance of roads within the planning district of the city or county. Localities would be authorized to impose the additional tax on or after July 1, 2001.

The increase of the combined retail sales and use tax rate from 4.5% to 5.5% would be the first increase in the sales and use tax rate since the one-half percent increase enacted by the 1986 Special Session of the General Assembly. The revenues

generated by the one-half percent increase are dedicated to the Transportation Trust Fund.

This bill would require the Department of Taxation to promulgate any regulations necessary to implement the taxes levied by localities by virtue of the authority created by this act. Additionally, a bracket system will also need to be created for the collection of such taxes.

cc: Secretary of Finance

Date: 1/16/01/dfm

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