Department of Planning and Budget
2001 Fiscal Impact Statement

1. **Bill Number** HB2249

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron** Day

3. **Committee** Finance

4. **Title** Individual income tax; distributions to localities

5. **Summary/Purpose:** This bill would establish the Localities' Portion of State Tax Revenues Fund (the "Fund"). One percent of individual income tax revenues would be deposited into the Fund for distribution to localities. Distributions to localities would be based on each individual income taxpayer's residence. Distributions to localities would be made each September 1st of the year following the taxable year.

6. **Fiscal Impact Estimates are:** Preliminary

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2000-01	$0	0.00	N/A
2001-02	$0	0.00	N/A
2002-03	$81,013,000	6.00	GF

7. **Budget amendment necessary:** No

8. **Fiscal implications:** This bill would have no effect on General Fund revenue collections. However, a portion of the General Fund would be transferred to localities. Distributions to localities are estimated to be $80.8 million for FY 2003.

Starting in FY 2003 the Department of Taxation (TAX) will incur administrative costs for administering this legislation. 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 the department 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, the department 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. The department would incur administrative costs of $213,000 for FY 2003 for six additional full-time positions. Continuing costs would be $183,000 for FY 2004 and thereafter.

9. Specific agency or political subdivisions affected: Department of Taxation, Department of Treasury; Department of Accounts, Localities

10. Technical amendment necessary: None

11. Other comments: HB 2249 makes the distribution to localities based on taxable year rather than fiscal year as is proposed in HB 2017, HB 2246, SB 1165, and SB 1218.

This bill would create the Localities' Portion of State Tax Revenues Fund (the "Fund"). By September 1 of each year, one percent of individual income tax revenues from the preceding taxable year would be distributed to localities from the Fund. Distributions would be made based on the residency of individual income taxpayers. The first distributions for the 2002 taxable year would be required by September 1, 2003.

Residency Issues

The tax revenue distributed would be based on individual income tax paid by residents of a locality. It would be extremely difficult to verify the residency of an individual who moves from a locality to another during a taxable year or even after a taxable year but before the filing deadline. As such, the department would recommend determining residency based on information provided on an individual income taxpayer's return for the taxable year being distributed.

Other Legislation

House Bill 1994 would increase the corporate income tax rate and the individual income tax rates in each tax bracket by one percent. The additional income tax revenues would be distributed to localities based on the residence of each individual taxpayer (individual income tax) and each locality's share of total full-time employees (corporate income tax). The maximum rate localities could levy for the personal property tax would be reduced to $0.01 per $100 of assessed value.

House Bill 2017, House Bill 2446, Senate Bill 1165, and **Senate Bill 1218** would establish the Localities' Share of Individual Income Tax Revenue Fund. A portion of individual income tax revenues would be deposited into this fund for distribution to localities. The first deposit would be made by September 1, 2003, based on two percent of individual income tax collections for FY 2002. The percentage of individual income taxes deposited into this fund would increase two percent each year until it reaches 10 percent in 2007. Distributions to counties would be shared with towns located within the counties based on the towns' relative share of total population within the county.

House Bill 2036 would reduce the individual state income tax rates by approximately 13.75 percent and authorize localities to impose a local income tax at rates equivalent to the reduction in the state income tax. The bill would also repeal the Personal Property Relief Act of 1998. In order for this bill to become effective, a Constitutional amendment would have to be ratified by voters exempting motor vehicles used for nonbusiness purposes from taxation.

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cc: Secretary of Finance