Department of Planning and Budget
2001 Fiscal Impact Statement

1. **Bill Number** HB2446

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Clement

3. **Committee** Finance

4. **Title** Distribution of portion of individual income tax to localities

5. **Summary/Purpose:** This bill would establish the Localities' Share of Individual Income Tax Revenue Fund (the "Fund"). A portion of individual income tax revenues would be deposited into the 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 Fiscal Year 2002. The percentage of individual income taxes deposited into the 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.

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	$156,113,000	6.00	GF

7. **Budget amendment necessary:** No

8. **Fiscal implications:** This bill would have no effect on General Fund revenue collections. However, a significant portion of the General Fund would be transferred to localities beginning in FY 2003. This bill would require that in FY 2003, $155.9 million of the Individual Income Tax revenues be returned to localities. In FY 2004, the amount increases to $332.7 million. In FYs 2005 and 2006 the transfer amounts would be $533.6 million and $760.9 million, respectively. In FY 2007 when this bill is fully implemented, the transfer amount increases to $1,015.9 million.

Table 1
(Dollars in millions)

Revenue Year	Individual Income Tax Collections	Transfer Year	Percentage of Transferred	Amount Transferred
FY 2002	$7,793.3	FY 2003	2.00%	$155.9
FY 2003	$8,318.5	FY 2004	4.00%	$332.7
FY 2004	$8,893.2	FY 2005	6.00%	$533.6
FY 2005	$9,511.6	FY 2006	8.00%	$760.9
FY 2006	$10,159.4	FY 2007	10.00%	$1,015.9
FY 2007	$10,856.7	FY 2008	10.00%	$1,085.7
FY 2008	$11,602.8	FY 2009	10.00%	$1,160.3

(Estimates are based on the December 20, 2000, revenue forecast.)

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: House Bill 2017, Senate Bill 1165, and Senate Bill 1218 are identical to this bill.

This bill would create the Localities' Share of Individual Income Tax Revenue Fund (the "Fund"). By August 1 of each year, a portion of individual income tax revenues from the preceding fiscal year would be deposited into the Fund. The first deposit to the Fund equal to two percent of individual income tax revenues for FY 2002 would be required by August 1, 2003. In succeeding years, the percentage of individual income tax revenues required to be deposited would increase by two percent until it reaches 10 percent in 2007.

Distribution from the Fund would be made to localities by September 1 of each year. The first distribution would be made by September 1, 2003. The Fund would be distributed based on a statutory formula. Under this formula, 50 percent would be distributed based on the relative share of income tax paid by individuals filing returns in each locality, 40 percent would be distributed based on where wages are earned and 10 percent would be distributed equally among all 135 counties and cities. Further distributions would be made to towns from one half of a county's distribution based on the towns' relative share of total population within the county.

The Tax Department already captures the data for the distribution of 50 percent of the Fund. However, the data for the 40 percent of the distribution is based on wage reports submitted by employers to the Virginia Employment Commission. Employers that operate in more than one location are allowed to report all of their wages in the locality in which their operations are based. As a result, this data would include wages reported in one locality, but actually earned in another.

Local Option Income Tax

Legislation enacted during the 1989 Generally Assembly session authorized certain cities and counties to impose a local income tax on individuals and corporations in addition to the state income tax rate. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts and corporations at any increment of 1/4 percent up to a maximum rate of one percent. Cities and counties can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes. No city or county currently imposes the local income tax.

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 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.

House Bill 2249 would establish the Localities' Portion of State Tax Revenues Fund. One percent of individual income tax revenues would be deposited into this 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 1 of the year following the taxable year.

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cc: Secretary of Finance