

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Dillard

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: Allow Certain
Localities to Increase Local Sales and Use
Tax

2. **Bill Number** HB 2776

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize any county having a population of more than 500,000, any city or county adjacent to such county, and any city contiguous to such an adjacent county or city, to levy a special sales and use tax of 1%. The cities and counties that qualify to impose this tax comprise the Northern Virginia Planning District. The tax authorized under this bill would be imposed only if approved by a majority of those voting in a referendum in the locality.

The revenues generated by the special 1% local sales and use tax imposed under this bill would be credited to the account of each particular city or county where the tax was collected. The revenue generated by the tax imposed by this bill would be applied in equal shares for transportation and public education purposes within the locality.

Provided the referendum vote is approved in the locality, an ordinance imposing the tax must be adopted no later than May 6, 2002.

6. **Fiscal Impact Estimates are:** Tentative. (See Line 8).

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$55,600	GF
2002-03	\$40,000	GF

* **These figures do not include systems costs (see Line 8).**

7. **Budget amendment necessary:** Yes.

Item 279, Department of Taxation

8. Fiscal implications:

Administration

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.

The department would incur administrative costs of \$55,600 during fiscal year 2002 and cost would be \$40,000 for fiscal year 2003 and beyond.

Revenue

The amount of additional local revenue, if any, resulting from the passage of this bill is unknown. The magnitude depends on whether voters in Northern Virginia Planning District approve the referendum vote in the November 6, 2001 election. If the referendum is approved in each locality by a majority of those voting, revenues to the Northern Virginia Planning District are estimated to increase by \$62.2 million in fiscal year 2002, and by \$260.9 million in fiscal year 2003. The fiscal year 2002 revenue estimate assumes a January 1, 2002 effective date in all localities.

The preceding estimates should be regarded as **very preliminary** because there is no available data on the distribution of food sales taxed at the reduced rate by localities, and the estimate herein are based on statewide figures.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Accounts
Localities in the Northern Virginia Planning District

10. Technical amendment necessary: None.

11. Other comments:

Generally

All localities in the Commonwealth currently impose a 1% local sales and use tax, which is collected and remitted in the same manner as the 3½% state retail sales and use tax.

This bill would authorize the localities within the Northern Virginia Planning District to impose an additional 1% special sales and use tax. This would increase the total state and local sales and use tax rate within the Northern Virginia Planning District to 5½%.

The Northern Virginia Planning District consists of the counties of Arlington, Fairfax, Loudoun, and Prince William and the cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park.

The 1% special sales and use tax authorized by this bill is applicable to both the sales tax and the use tax. This means that items of tangible personal property purchased in jurisdictions outside the localities that comprise the Northern Virginia Planning District, and brought into the district for use or consumption by the purchaser, will be subject to the additional 1% special use tax. The use tax is applicable to businesses as well as individuals.

Sales of Food for Human Consumption

This bill provides that the 1% special sales and use tax increase shall not be applicable to food purchased for human consumption. Therefore, this bill would not affect the Food Tax Reduction Program.

Dealer Discount

Code of Virginia § 58.1-622 provides a discount from the state sales and use taxes owed by dealers as compensation for registering, collecting and remitting sales and use taxes owed to the state. This bill provides that the 1% special sales and use tax authorized by this bill shall not enjoy the dealers discount afforded to the first 3% of the state sales and use tax.

Disposition of Revenues

The revenues generated by the tax imposed in this bill would be credited to a special fund under the name of "Collections of Special Local Sales and Use Taxes", and would be applied in equal shares for transportation and public education within the localities. In determining the amount to be distributed, the Department of Taxation is authorized to subtract its direct costs of administering the tax.

Similar Legislation

House Bill 2725 would authorize the localities within the Northern Virginia Planning District to impose an additional ½% state sales and use tax, if approved by voters in a joint referendum within the district at the general election on November 6, 2001.

Senate Bill 1368 would authorize the localities within the Northern Virginia Planning District to increase the state sales and use tax rate 1%, upon approval of a joint referendum in November, 2002, and the passage of legislation creating a regional transportation authority for Northern Virginia.

cc: Secretary of Finance

Date: 1/23/01/wbs

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