

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Dillard

3. **Committee** Senate Finance

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

2. **Bill Number** HB 2776

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize any county having a population of more than 800,000, any city or county adjacent to such county, and any city contiguous to such an adjacent county or city, to impose an additional state sales and use tax of ½%. The cities and counties that qualify to impose this tax comprise the Northern Virginia Planning District. The additional tax imposed by this bill will be imposed only upon approval by qualified voters in the Northern Virginia Planning District.

The additional ½% state sales and use tax increase would not apply to food sold for human consumption. The additional ½% state sales and use tax increase would apply to items sold through vending machines.

The revenues generated by the additional ½% sales and use tax imposed under this bill would be deposited in the Northern Virginia Transportation District Fund to fund transportation projects in the Northern Virginia Planning District.

The tax increase authorized by this bill would be effective January 1, 2002, contingent upon a majority approval vote by qualified voters within the Northern Virginia Planning District in the November 2001 election.

This bill would also increase the maximum aggregate principal amount of bonds issued by the Commonwealth Transportation Board from \$471.2 million to \$2.77 billion.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$58,400	GF
2002-03	\$41,300	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 \$58,400 during fiscal year 2002 and cost would be \$41,300 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 increase in a vote in the November 2001 election. If a majority of qualified voters in the Northern Virginia Planning District approve this increase, revenue to the Northern Virginia Planning District is estimated to increase by \$51.8 million in fiscal year 2002, and by \$132.4 million in fiscal year 2003.

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: Yes.

To correct a reference to a code section of the bill that has been stricken, the following technical amendment is necessary:

Page 4, Line 194, after: set forth in

Strike: subsections B and C of § 58.1-603

Insert: subsection B of § 58.1-603 and subsection B of § 58.1-604

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 ½% state sales and use tax. This would increase the total state and local sales and use tax rate within the Northern Virginia Planning District to 5%.

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 ½% state tax increase authorized by this bill is applicable to both the state sales tax and the state 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 ½% state use tax. The use tax is applicable to businesses as well as individuals.

Sales of Food for Human Consumption

This bill provides that the ½% state 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.

Sales Through Vending Machines

In situations where the collection of the tax on sales proves to be impractical, i.e., vending machine sales, upon permission from the Tax Commissioner, vendors may pay the 4½% sales and use tax on the wholesale cost of items sold. The ½% state tax increase authorized by this bill will be applicable to items sold through vending machines. Therefore, persons operating vending machines in the Northern Virginia Planning District, upon approval from the Tax Commissioner, will be required to pay tax on the wholesale cost of items at the rate of 5%.

Disposition of Revenues

The revenues generated by the tax imposed in this bill would be deposited into the Northern Virginia Transportation District Fund to fund transportation projects within the district.

Similar Legislation

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: 2/9/01/wbs

Document: S:\WorkInProgress\OTPwork\House Bills\HB2725FEHA1161