

# DEPARTMENT OF TAXATION

## 2001 Fiscal Impact Statement

1. **Patron** Hull

3. **Committee** House Finance

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

2. **Bill Number** HB 2861

**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 one-half percent local retail sales and use tax.

The revenue generated by the tax imposed under this bill would be used for school construction, additions, infrastructure, site acquisition for public school buildings and facilities, renovations, including the costs of retrofitting or enlarging public school buildings, and debt service payments on such school projects which have been completed during the last ten years.

The effective date of this bill has not been 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 ½% local retail sales and use tax would increase local revenues. However, the total increase is dependent on how many and which localities would 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 ½% local retail sales and use tax, revenues would have increased by another \$370.5 million.

**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:** None

**11. Other comments:**

Code of Virginia § 58-441.49 (1966) 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. The Code of Virginia was again amended in 1968 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. Currently, these sections are codified as Code of Virginia §§ 58.1-605 and 58.1-606.

All cities and counties in the Commonwealth currently impose a 1% local retail 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 all cities and counties to impose an additional one-half percent local retail sales and use tax. This would increase the combined retail sales and use tax rate (state and local) from the current 4.5% to 5%, with 1½% being the local option retail sales and use tax distributed back to the localities. Revenues generated by the one-half percent tax authorized by this bill would be used for school construction, additions, infrastructure, site acquisition for public school buildings and facilities, renovations, and debt service payments on such school projects which have been completed during the last ten years.

The increase of the combined retail sales and use tax rate 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 1986 one-half percent increase are dedicated to the Transportation Trust Fund.

HB 2248 would which authorize any city or county to impose an additional one percent local retail sales and use tax. The revenues generated from the tax would be used solely for building and maintaining roads within a locality's planning district.

cc: Secretary of Finance

**Date:** 1/23/01/dfm

**Document:** S:\WorkInProgress\OTPwork\HouseBills\hb2861F161.doc