

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Saslaw

3. **Committee** Senate Finance

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

2. **Bill Number** SB 1368

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize the localities within the Northern Virginia Planning District to impose an additional state sales and use tax of 1% within all cities or counties located in the district. The tax authorized by this bill would be imposed only if approved by a majority of those voting on a joint referendum in the Northern Virginia Planning District, not in each individual locality, in November 2002.

The revenues generated by the tax under this bill would be applied in equal shares for transportation needs within the district and education-related needs within the district.

Provided the referendum vote is approved in the district, the tax increase authorized by this bill would be effective January 1, 2003.

6. **Fiscal Impact Estimates are:** Preliminary (see Line 8).

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

Admininstration

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 bill once they have been acted upon favorably.

The department would incur administrative costs of \$58,400 during fiscal year 2003 and cost would be \$41,300 for fiscal year 2004 and beyond.

Revenue

The amount of additional local revenue resulting from the passage of this bill is unknown. The magnitude of the revenue gain is dependent upon passage of a joint referendum by voters in the November 2002 election, and creation of a regional transportation authority by the General Assembly in 2001 or 2002 and approval by the Governor. If the referendum is approved by a majority of those voting, revenue to localities in the Northern Virginia Planning District is estimated to increase by \$110.4 million in fiscal year 2003. This estimate reflects five months of tax collections for FY 2003, as the effective date of the tax increase would be January 1, 2003. This revenue would be divided equally between transportation needs and educational needs. This revenue estimate assumes a January 1, 2003 effective date in all localities.

The preceding estimate 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 is 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 along with 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% 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 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% 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 1% state tax increase. The use tax is applicable to businesses as well as individuals.

Sales of Food for Human Consumption

This bill provides that the 1% state tax increase would 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 1% 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 5½%.

Disposition of Revenues

One-half of the revenue generated by the additional tax imposed by this bill will be distributed to a regional transportation authority created by the General Assembly, and used for transportation needs within the localities of the Northern Virginia Planning District. The other half of the revenue generated from this tax increase will be used solely to meet the educational needs of the Northern Virginia Transportation District.

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.

House Bill 2776 would authorize the localities within the Northern Virginia Planning District to impose a special sales and use tax of 1%, if approved by voters within the locality at the general election on November 6, 2001.

cc: Secretary of Finance

Date: 1/25/01/wbs

