

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Scott

3. **Committee** House Finance

4. **Title** Local Income Tax

2. **Bill Number** HB 1018

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require eligible Northern Virginia localities that enact a local income tax to use the proceeds from the tax for transportation projects approved by the Transportation Coordinating Council of Northern Virginia in December 1999. Proceeds from the tax could be used for educational purposes provided that 55% of the additional revenue be used for transportation needs. Currently, the proceeds from the local income tax must be used exclusively for transportation purposes. The bill would also repeal the provision that limits a locality's imposition of the tax to five years and establish an expiration date for the local income tax if no locality enacts the tax by ordinance by July 1, 2004.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Unknown. (See line 8.)

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

8. **Fiscal implications:**

Administrative Cost

Existing law allows certain localities to impose a local income tax. Because this bill amends the existing local income tax statutes, there would be no administrative costs directly related to this bill. However, because no localities have enacted the local income tax, to the extent that localities are encouraged to pass a referendum to impose a local income tax, this bill could substantially impact the department.

There are costs associated with modifying the system to implement this legislation. TAX is currently in the process of replacing its automated systems as part of a partnership with AMS. As a result, TAX will be maintaining two systems – the current STARS system and the new

IRMS system – for a period of time as a contingency. The contract with AMS generally provides for the costs of implementing routine legislation. However, changes attributable to major legislation are not within the scope of the contract.

Because the scope of this legislation is significant, systems changes will not be paid through the AMS contract. Therefore, the department would incur administrative costs for systems development of \$929,160 in FY 2003, \$626,210 in FY 2004, and \$24,000 in FY 2005 and all fiscal years thereafter. In addition, the department would incur costs of \$518,784 in FY 2003, \$460,534 in FY 2004 and all fiscal years thereafter for processing costs, forms development, and for three additional customer services positions. All of these administrative costs total \$1,477,944 in FY 2003, \$1,086,744 in FY 2004, and \$484,534 in FY 2005 and fiscal years thereafter.

The above costs assume that all eligible localities will impose the local income tax. If less than all of the eligible localities enact the local income tax, the department's non-systems costs would be reduced.

Under Item 281 of the Budget Bill, the department is permitted to borrow from the Transportation Trust Fund the necessary start-up costs associated with the implementation of the local income tax. Repayment of the start-up costs to the fund would come from revenues generated by the local income tax.

Revenue Estimate

Currently, none of the eligible localities have imposed the local income tax. If all of the eligible localities had imposed a local income tax at the maximum rate for the 1999 taxable year, their combined revenues would have increased by an estimated \$528.7 million.

9. Specific agency or political subdivisions affected:

Department of Taxation
Transportation Coordinating Council of Northern Virginia
Localities that choose to impose local income tax

10. Technical amendment necessary: No.

11. Other comments:

Background

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individual residents of the localities and corporations, estates, and trusts with income from sources within the localities. 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 ¼% up to a maximum rate of 1% above the state income tax rate. 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.

Proposed Changes

Under this bill, the counties of Arlington, Fairfax, Loudon, and Prince William and the cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park, and Norfolk would remain the only localities that can impose a local income tax. Revenues generated by a local income tax in Northern Virginia localities would be required to be used to pay for specific transportation projects designated by the Transportation Coordinating Council of Northern Virginia in December 1999. However, in the case of the city of Norfolk, the Council would not designate projects for that locality.

In addition, the bill would expand the items which could be funded by a local income tax. Eligible localities could impose a local income tax to pay for educational purposes provided that at least 55% of the revenue generated be used for transportation needs.

This bill would also repeal the five-year limitation for the imposition of a the tax and enact an expiration date if no locality enacts a local income tax. If no locality takes action by July 1, 2004, the provisions of the local income tax would sunset.

Other Legislation

House Bill 575, House Bill 961, and Senate Bill 380 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 percentage of individual income taxes deposited into the Fund would increase 2% each year from 2% in 2003 until it reaches 10% in 2007.

House Bill 699 would distribute to each county or city the greater of (i) the county or city's share of fifteen percent of the individual income tax revenues for the prior fiscal year or (ii) the indexed revenue the county or city received in 2004 from the tangible personal property tax on nonbusiness use motor vehicles.

House Bill 770 would amend the local option income tax to allow any county or city to impose the tax at a rate of either one-half or one percent with the adoption of an ordinance.

House Bill 1238 would increase the corporate income tax rate and the individual income tax rates in each tax bracket by 1%. 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). This bill would also limit the tax rate localities could levy on personal property at \$0.01 per \$100 of assessed value.

Senate Bill 37 would allow cities to impose an income tax on individuals and estates or trusts in increments of one-quarter percent up to one percent on the Virginia taxable income of the individual or estate or trust.

cc: Secretary of Finance

Date: 1/29/02/CT

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