

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Hull

2. **Bill Number** HB 1163

3. **Committee** House Finance

House of Origin:

X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax: Authorizes a State
Sales and Use Tax Increase in Northern
Virginia Planning District

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the state sales and use tax by 1 percent in the Northern Virginia Planning District for the period of April 2003 through December 2012, and by an additional ½ percent for the period of January 2013 through December 2037. The tax increase authorized under this bill would be imposed only if approved by a majority vote in a joint referendum of all cities and counties located in the Northern Virginia Planning District.

One-half of the revenues generated by this tax increase would be distributed to the localities in the Northern Virginia Planning District based on point-of-sale and dedicated solely to education-related purposes. The other half would go to the Northern Virginia Transportation Authority.

This bill also establishes the "Northern Virginia Regional Transportation Program Bond Act of 2002," which is authorized to issue bonds in an aggregate principal amount not exceeding \$2.38 billion.

The effective date of this bill is April 1, 2003, contingent upon approval of a referendum vote in the Northern Virginia Planning District on November 5, 2002.

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2001-02	\$0	0	GF
2002-03	\$829,900	0	GF
2003-04	\$14,000	0	GF

7. Budget amendment necessary: Yes.

Item 283, Department of Taxation

8. Fiscal implications:

Administration

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. Current systems costs to implement this bill would be \$795,800 in FY 2003, with continuing annual costs of \$14,000. Other administrative costs for forms development, postage and personnel would be \$97,100 in FY 2003.

Revenue

The amount of additional 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 2002 election. If the referendum is approved by a majority of those voting, revenue generated from the 1% tax increase is estimated to total \$41.8 million in FY 2003, and \$267.5 million in FY 2004. These estimates assume an April 1, 2003 effective date.

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 the localities, and the estimates herein are based on statewide figures.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Accounts
Northern Virginia Planning District

10. Technical amendment necessary: None.

11. Other Comments.

Generally

All localities in the Commonwealth currently impose a 1 percent local sales and use tax, which is collected and remitted along with the 3½ percent state retail sales and use tax. This bill would authorize the localities within the Northern Virginia Planning District, upon referendum vote approval, to impose an additional 1 percent state sales and use tax. This would increase the total state and local general sales and use tax rate within the Northern Virginia Planning District to 5½ percent.

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 percent state tax increase proposed by this bill is applicable to both the state sales and state use tax. This means that items of tangible personal property purchased in jurisdictions outside the locations that comprise the Northern Virginia Planning District, and brought into the district for use and consumption by the purchaser, will be subject to the additional 1 percent state use tax increase. The use tax is applicable to business as well as individuals.

Sales of Food for Human Consumption

This bill provides that the 1 percent state sales and use 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 machines sales, upon permission from the Tax Commissioner, vendors may pay the 4½ percent sales and use tax on the wholesale cost of items sold. The 1 percent state tax increase authorized by this bill will be applicable to items sold through vending machine. 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 percent.

Disposition of Revenues

The revenue derived from the 1 percent state sales and use tax increase in the Northern Virginia Planning District imposed in this bill will be allocated one-half to education-related purposes, and the other half to the Northern Virginia Transportation Authority.

The sixth enactment clause specifies that revenues generated from the passage of this bill will not diminish or replace allocations or appropriations for education or transportation from other sources.

Similar Legislation

House Bill 17 would impose a ½ percent local sales and use tax increase statewide to be used for public school construction and renovations.

House Bill 451 authorizes localities to impose a ½ percent local sales and use tax increase upon referendum vote approval. All revenues to be used solely for education purposes.

House Bills 656 and 657 authorize a 1 percent state sales and use tax increase in the Northern Virginia Planning District upon referendum vote approval (Revenues to be used for education and transportation purposes). House Bill 656 also authorizes a ½ percent local sales and use tax increase in any locality of the Commonwealth upon approval in a referendum vote within the locality (Revenues to be used solely for education purposes).

House Bill 1019 and 1170 impose a 1 percent state sales and use tax increase statewide, with revenues to be used for education purposes.

House Bill 1295 and Senate Bill 667 authorize localities in the Northern Virginia Transportation District and the Hampton Roads Transportation District to impose an additional 1 percent state sales and use tax to be used for transportation projects.

House Bill 1296 authorizes localities in the Eighth Planning to impose an additional ½ percent state sales and use tax to be used to fund transportation projects.

Senate 170 authorizes a ½ percent statewide state sales and use tax increase, the revenues to be used for education purposes. This bill also authorizes a ½ state tax increase in the Northern Virginia Planning District upon referendum vote approval, the revenues to be used for transportation purposes.

cc: Secretary of Finance

Date: 01/14/02/wbs

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