

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Dillard

Bill Number HB 1170

3. **Committee** House Education

House of Origin:

X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax: State Sales and
Use Tax Rate Increase

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the state retail sales and use tax rate $\frac{1}{2}$ percent from 3.5 percent to 4 percent. The revenues generated from this tax rate increase will be distributed to counties and cities based on school-age population and used solely for capital projects for public school construction and infrastructure improvements.

The effective date of this bill is not specified.

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	\$310,100	0	GF
2002-03	\$89,000	0	GF
2003-04	\$0	0	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2001-02	\$0	0	GF
2002-03	\$376.5 million	0	GF
2003-04	\$437.3 million	0	GF

7. **Budget amendment necessary:** Yes.

Page 1, Revenue Estimates
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 \$310,100 in FY 02, and other administrative costs total \$89,000 in FY 03 for personnel, forms development and postage.

TAX requires seven months lead time to implement a sales tax increase.

Revenue

The amount of additional state revenue generated by the tax rate increase proposed in this bill is estimated to be \$376.5 million in FY 2003 (11 months as the result of one-month delay), and \$437.3 million in FY 2004.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Account
All localities in the Commonwealth

10. Technical amendment necessary: None.

11. Other comments:

Generally

This bill would impose an additional ½ percent state sales and use tax, which would increase the state retail sales and use tax from 3.5 percent to 4 percent. The ½ percent increase imposed by this bill would be applicable to both the state sales tax and the state use tax. The use tax is applicable to businesses as well as individuals.

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 ½ percent state tax increase authorized by this bill will be applicable to items sold through vending machine. Therefore, persons operating vending machines in the

Commonwealth, upon approval from the Tax Commissioner, will be required to pay tax on the wholesale cost of items at the rate of 5 percent.

Disposition of Revenues

The revenue derived from the ½ percent state sales and use tax increase imposed in this bill will be distributed to counties and cities based on school-age population and used solely for public school construction and infrastructure improvements.

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, 657 and 1163 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 imposes 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: 01/13/02/WBS

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