

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Rollison

3. **Committee** House Finance

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

2. **Bill Number** HB 1296

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the state sales and use tax by ½ percent in the Northern Virginia Planning District. 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.

The revenues generated by this tax increase would be deposited in the Northern Virginia Transportation District Fund and used solely for transportation needs within the District.

This bill also increases the bond issuance amount allowed by the Commonwealth of Virginia Transportation Contract Revenue Bond Act from \$471.2 million to \$2,696,200,000.

The effective date of this bill is July 1, 2003, contingent upon referendum approval in the November 5, 2002 election.

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$0	GF
2002-03	\$702,900	GF
2003-04	\$68,000	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 \$659,800 in FY 03, and other administrative costs such as forms development, postage, and personnel would be \$43,100 in FY 03. Administrative costs for FY 04 would be \$68,000.

Revenue

The amount of additional state revenue should this bill pass is estimated to increase by \$122.6 million in FY 04 (this estimates represents 11 months as there is a one-month lag).

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 increase the state sales and use tax by ½ percent in the Northern Virginia Planning District, upon referendum vote approval.

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 tax increases proposed by this bill are applicable to both the state sales and use tax. This means that items of tangible personal property purchased in localities that do not impose the additional state or local tax, and used and consumed in localities which do impose an additional sales and use tax, will be subject to the additional tax in the locality of use. The use tax is applicable to businesses as well as individuals.

This bill would also repeal the right of any county or city within the Northern Virginia Planning District to levy a local income tax.

Sales of Food for Human Consumption

The additional state sales and use tax imposed in this bill would not be applicable to food purchased for human consumption.

Sales Made 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 state sales and use tax increase authorized by this bill would be applicable to items sold through vending machine. Provided the referendum is approved, 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 5 percent.

Disposition of Revenues

The revenue derived from the ½ percent state sales and use tax increase imposed in this bill will be deposited in the Northern Virginia Transportation District Fund and used solely for transportation projects within the Northern Virginia Planning District.

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.

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.

Senate Bill 668 would authorize localities in the Hampton Roads Transportation District to impose an additional 1½ percent state sales and use tax to be used for transportation projects.

cc : Secretary of Finance

Date: 01/22/02/WBS

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