

## DEPARTMENT OF TAXATION 2002 Fiscal Impact Statement

1. **Patron** Rollison

2. **Bill Number** HB 1296

3. **Committee** Senate Finance

**House of Origin:**

☐ **Introduced**

☐ **Substitute**

☐ **Engrossed**

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

**Second House:**

☒ **In Committee**

☐ **Substitute**

☐ **Enrolled**

### 5. **Summary/Purpose:**

This bill would authorize the Northern Virginia Planning District to increase the state sales and use tax by ½ percent. 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 distributed back to the applicable locality based on point-of-sale and used solely for transportation needs within the District. However, if any city or county is a member of a regional transportation program established by the General Assembly, the revenue would be deposited in the applicable special fund for such program.

This bill also increases the bond issuance amount allowed by the Commonwealth of Virginia Transportation Contract Revenue Bond Act from \$471.2 million to \$2,746,200,000.

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><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></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 generated from the tax increase authorized by this bill is estimated to be \$122.6 million in FY 04 (this estimate represents 11 months of revenue, as there is a one-month lag for the first year the tax increase is effective).

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.

This bill authorizes all cities and counties in any transportation district established by the Department of Transportation to increase the state sales and use tax ½ percent, **provided**, all cities and counties in the transportation district had designation on January 1, 2002 as a non-attainment locality for the one-hour ozone standard as set forth in the federal Clean Air Act. The Northern Virginia Planning District is the only transportation district that qualifies under this bill. 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 increase proposed by this bill is 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 repeal the authority 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 authorized by 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 used solely for transportation projects within the Northern Virginia Planning District.

The fifth enactment clause of the bill provides that revenues dedicated to transportation purposes from the tax increase authorized by this bill shall not be used to calculate or

reduce the share of local, federal or state revenue otherwise available to participating jurisdictions or to their highway construction district.

### **Similar Legislation**

Senate Bill 40 would authorize the City of Winchester to adopt an ordinance imposing an additional 1 percent local sales and use tax, revenues to be used solely for educational purposes.

Senate Bill 170 would authorize; 1) a ½ percent statewide state sales and use tax increase, the revenues to be used for education purposes; 2) a ½ percent state sales and use tax increase in the Northern Virginia Planning District, all revenues to be used solely for transportation purposes; and 3) a 1 percent state sales tax increase in the Eastern Virginia Transportation District, all revenues to be used solely for transportation purposes.

Senate Bill 668 would authorize localities in the Eastern Virginia Transportation District to impose an additional 1 percent state sales and use tax to be used for transportation projects.

cc : Secretary of Finance

Date: 02/15/02/WBS

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