

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Lingamfelter

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: Allocates ½
Percent of the State Sales and Use Tax
to the Northern Virginia Planning District

2. **Bill Number** HB 1311

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill provides that the revenue generated by a ½ percent state sales and use tax on sales in the localities composing the Northern Virginia Planning District shall be distributed back to the cities and counties based on point-of-sale location. The revenues provided by the distribution will be used solely for transportation projects in the 2020 Plan of the Transportation Coordinating Council of Northern Virginia scheduled to be completed by 2010.

The effective date of this bill is July 1, 2002.

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 | \$816,500 | GF |
| 2003-04 | \$5,900 | 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 \$156,700 in FY 03. Administrative costs for FY 04 would be \$5,900.

Revenue

This bill is revenue neutral, as there is no revenue increase or decrease associated with this bill. If this bill is passed, General Fund revenue will be reduced by \$129.8 million in FY 03 and \$150.7 million in FY 04. Local allocation of state sales and use tax to the Northern Virginia Planning District will be increased by the same amount the General Fund will decrease.

9. Specific agency or political subdivisions affected:

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

10. Technical amendment necessary: None.

11. Other comments:

Generally

This bill would allocate back to the localities within the Northern Virginia Planning District revenues generated by $\frac{1}{2}$ percent of the $3\frac{1}{2}$ percent state sales and use tax currently being collected in the Northern Virginia Planning District. The funds will be allocated to each city or county in the Northern Virginia Planning District based upon the city or county where the sales were made.

Currently, 2 percent of the $3\frac{1}{2}$ percent state sales and use tax is deposited in the General Fund. The $\frac{1}{2}$ percent allocation proposed by this bill would be General Fund revenue.

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.

Disposition of Allocated Funds

The revenue subject to the allocation proposed by this bill will be used solely for transportation projects in the 2020 Plan of the Transportation Coordinating Council in Northern Virginia, scheduled for completion in 2010.

Other Legislation

While this bill does not increase the rate of the retail sales and use tax statewide or in the Northern Virginia Planning District, there are bills in the House and Senate that would increase the sales and use tax rates to fund transportation and/or education projects either in the Northern Virginia Planning District or statewide.

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 Bills 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 Bill 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: 10/28/02/WBS

