

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Dillard

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: Allows State and Local Sales and Use Tax Increases

2. **Bill Number** HB 656

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

Northern Virginia Planning District

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 returned to the county or city generating the revenue and dedicated to education and transportation needs within the District. The other half would go to the Northern Virginia Transportation Authority to be used exclusively for transportation projects.

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.

All Localities of the Commonwealth

This bill would also authorize any county or city in the Commonwealth to levy a ½ percent local sales and use tax in addition to the 1 percent local sales and use tax currently imposed statewide. This tax increase would be imposed only if approved by a referendum vote in the locality. The revenues generated from this ½ percent tax increase will be used solely for capital projects for public school construction and renovations.

The effective date of this ½ percent local sales and use tax increase shall be at least 60 days after referendum approval, but not prior to April 1, 2003.

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	\$939,900	0	GF
2003-04	\$0	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 \$842,800 in FY 03. Other administrative costs for forms development, postage and personnel would total \$97,100 for FY 03.

Revenue

Northern Virginia Planning District

The amount of additional local revenue, if any, resulting from the passage of this bill is unknown. The magnitude depends on whether voters in the Northern Virginia Planning District approve the referendum vote in the November 5, 2002 election. If the referendum is approved by a majority of those voting, revenue generated from the 1 percent state tax increase is estimated to total \$41.7 million in FY 2003, and \$267.5 million in FY 2004. These figures 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.

All Localities in the Commonwealth

The amount of additional local revenue resulting from the passage of this bill is unknown because localities may or may not approve a local referendum imposing the tax and it is unknown as to the timing of the referendum vote. Assuming all localities approve the increase with an effective date of April 1, 2003, it is estimated that the increase in local revenue will be \$68.4 million in FY 2003 and \$437.3 million in FY 2004.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Accounts
All localities in the Commonwealth
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 in the Northern Virginia Planning District, and allow all localities in the Commonwealth the authority, upon referendum vote approval, to increase the local sales and use tax by ½ 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 tax increases proposed by this bill are applicable to both the state and local 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 tax sales and use tax, will be subject to the additional tax in the locality of use. The use tax is applicable to business as well as individuals.

Sales of Food for Human Consumption

The additional state sales and use tax imposed in the Northern Virginia Planning District would not be applicable to food purchased for human consumption. The additional ½ percent local sales and use tax option available to all localities would 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 in the Northern Virginia Planning District 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 from April 2003 through December 2012, and 5 percent from January 2013 through December 2037. The ½ percent local sales and use tax option available to all localities will also be applicable to sale of tangible personal property made through vending machines.

Disposition of Revenues

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

The ½ percent local sales and use tax option available to localities will be used solely for capital projects for public school construction and renovation within the locality.

The sixth enactment clause specifies that revenues generated from the passage of this bill will not diminish or replace allocation 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 657 and 1163 authorizes 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 1019 and 1170 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 authorizes 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: 01/12/02/wbs

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