

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Colgan

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Allows State Sales and Use Tax Increases in all Localities; Additional Tax in Northern Virginia Planning District

2. **Bill Number** SB 170

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 ½ percent in the Northern Virginia Planning District for the period of July 1, 2003 through June 30, 2043. 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.

All Localities of the Commonwealth

This bill would impose a statewide ½ percent state sales and use tax increase. This tax increase would be imposed only if approved in statewide referendum vote by the majority of voting citizens in the Commonwealth. The revenues generated from this ½ percent tax increase would be distributed back to the localities and used solely for education purposes.

The effective date of this ½ percent state sales and use tax increase would be July 1, 2003, upon approval in the November 2002 statewide elections.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$0	GF
2002-03	\$911,400	GF
2003-04	\$8,000	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$0	
2003-04	\$122.6 million	NGF
2003-04	\$355.8 million	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 \$790,400 in FY 03, with additional administrative costs such as form development, postage and personnel of \$121,000 in FY 03. Ongoing costs for FY 04 and beyond would be \$8,000.

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

Revenue

If the Northern Virginia Planning District referendum is approved, revenue in the Northern Virginia Planning District is estimated to increase by \$122.6 million in FY 2004; if the statewide referendum is approved, state revenue is estimated to increase by \$355.8 million in FY 2004. If both referendums pass, the total increase in state revenues will be \$478.4 million. These estimates assume that the tax rate increases would become effective July 1, 2003.

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
All localities in the Commonwealth

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 statewide and by a total of 1 percent in the Northern Virginia Planning District, assuming referendums for both tax increases are approved.

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 impose the additional statewide sales or local tax, and used and consumed in localities in the Northern Virginia Planning District 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.

Sales of Food for Human Consumption

The additional state sales and use taxes, both the statewide increase and the increase in the Northern Virginia Planning District, 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 increases authorized by this bill would be applicable to items sold through vending machines provided both referendums receive approval votes. Therefore, persons operating vending machines in all localities except those in the Northern Virginia Planning District, upon approval from the Tax Commissioner, would be required to pay tax on the wholesale cost of items at the rate of 5 percent after July 1, 2003. Vending machine operators in the Northern Virginia Planning District would be required to pay 5½ percent tax on the wholesale of all items sold through vending machines from July 1, 2003 through June 30, 2043.

Disposition of Revenues

The revenue derived from the ½ percent statewide sales and use tax increase would be distributed back to the localities based on school-aged population and used solely for educational purposes. The additional Northern Virginia Planning District ½ percent state sales and use tax increase imposed in this bill would be deposited in the Northern Virginia Transportation District Fund.

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 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.

Senate Bill 668 authorizes localities in the Hampton Roads Transportation District to impose an additional 1½ 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.

c: Secretary of Finance

Date: 01/15/02/wbs

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