

**DEPARTMENT OF TAXATION  
2002 Fiscal Impact Statement**

<p><b>1. Patron</b> Colgan</p> <p><b>3. Committee</b> House Finance</p> <p><b>4. Title</b> Retail Sales and Use Tax: Rate Increase of ½ Percent Statewide; ½ Percent Increase in Northern Virginia Planning District; 1 Percent Increase in Eastern Virginia Transportation District</p>	<p style="text-align: right;"><b>REVISED</b></p> <p><b>2. Bill Number</b> <u>SB 170</u></p> <p><b>House of Origin:</b> ____ <b>Introduced</b> ____ <b>Substitute</b> ____ <b>Engrossed</b></p> <p><b>Second House:</b> ____ <b>X In Committee</b> ____ <b>Substitute</b> ____ <b>Enrolled</b></p>
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**5. Summary/Purpose:**

This bill would authorize a:

- one-half (½) percent state sales and use tax increase statewide;
- one-half (½) percent sales and use tax increase in the Northern Virginia Planning District; and
- one (1) percent sales and use tax increase in the Eastern Virginia Transportation District.

The tax increases authorized by this bill would be imposed only if approved in referendum votes by the majority of voting citizens in the respective tax increase regions. All revenues generated from the ½ percent statewide tax increase would be distributed back to the localities and used solely for education purposes. All revenues generated from the tax increases proposed in the Transportation Districts would be used solely for transportation projects within the districts.

This bill establishes the "Northern Virginia Regional Transportation Program Bond Act of 2002," which is authorized to issue bonds in an aggregate principal amount not exceeding \$2.225 billion. This bill also establishes the "Eastern Virginia Regional Transportation Program Bond Act of 2002," which is authorized to issue bonds in an aggregate principal amount not exceeding \$5.990 billion.

The effective date of the state sales and use tax increases proposed in this bill would be July 1, 2003, upon referendum approvals in the November 2002 statewide elections.

**6. Fiscal Impact Estimates are:** Tentative. (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	\$1,031,300	GF
2003-04	\$70,100	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 \$900,000 in FY 03, with additional administrative costs such as form development, postage and personnel of \$131,300 in FY 03. Ongoing costs for FY 04 and beyond would be \$70,100.

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

**Revenue**

**Statewide - ½ Percent Increase**

If the statewide referendum is approved, state revenue is estimated to increase by \$355.8 million in FY 2004, based on 11 months of collections (adjusting for the one-month delay).

**Northern Virginia Planning District - ½ Percent Increase**

If the Northern Virginia Planning District referendum is approved, the sales and use tax revenue would increase by \$122.6 million in FY 04, based on 11 months of collections (adjusting for the one-month delay).

## **Eastern Virginia Transportation District - 1 Percent Increase**

If the Eastern Virginia Transportation District referendum is approved, the sales and use tax revenue would increase by \$131.2 million in FY 04, based on 11 months of collections (adjusting for the one-month delay).

**Total Revenue Impact** - The total revenue impact if all three referendums are approved is \$609.6 million for FY 04.

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  
Eastern Virginia Transportation 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. Assuming all three referendums proposed under this bill were to pass, this bill would increase the state sales and use tax by ½ percent statewide. The sales and use tax in the Northern Virginia Planning District would increase by a total of 1%, and the sales and use tax rate in the Eastern Virginia Transportation District would increase by a total of 1½ percent.

The tax increases proposed by this bill are applicable to both the retail sales and use tax. The use tax is applicable to businesses as well as individuals.

#### **Sales of Food for Human Consumption**

The additional sales and use taxes 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 sales and use tax increases authorized by this bill would be applicable to items sold through vending machines, provided the referendums receive approval votes. Therefore, persons operating vending machines in all localities, 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. Persons operating vending machines 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 5½ percent. Persons operating vending machines in the Eastern Virginia Transportation District, upon approval from the Tax Commissioner, would be required to pay tax on the wholesale cost of items at the rate of 6 percent.

### **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 a combination of variables with regard to school-age and student population and used solely for educational purposes.

The revenues derived from the ½ percent sales and use tax increase in the Northern Virginia Planning District, and the 1 percent sales and use tax increase in the Hampton Roads Transportation District, would be used solely for transportation projects within the respective districts.

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 Eastern Virginia Transportation District consists of the counties of Isle of Wight, James City and York, and the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg.

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

House Bill 1296 would authorize localities in the Northern Virginia Planning District to impose an additional ½ percent sales and use tax to be used to fund transportation projects.

c: Secretary of Finance

Date: 02/19/02/wbs

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