

# DEPARTMENT OF TAXATION

## 2002 Fiscal Impact Statement

1. **Patron** Williams

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: State Sales and  
Use Tax Increase in the Eastern Virginia  
Transportation District

2. **Bill Number** SB 668

**House of Origin:**

           **Introduced**

           **Substitute**

           **Engrossed**

**Second House:**

  X   **In Committee**

           **Substitute**

           **Enrolled**

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

This bill would authorize a 1 percent state sales and use tax increase in the Eastern Virginia Transportation District. This bill also establishes the Eastern Virginia Transportation District and the Special Fund Account of the Hampton Roads Planning District Commission. The sales tax increase authorized by this bill is contingent upon approval of a referendum vote within the Eastern Virginia Transportation District. All revenues generated by the tax increase would be deposited in the Special Fund Account of the Hampton Roads Planning District Commission and used solely to fund transportation projects in the district.

This bill also authorizes the Hampton Roads Planning District Commission to issue bonds in the amount of \$5.99 billion.

The effective date of this bill is July 1, 2003, contingent on referendum approval.

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:**

#### **Administrative**

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 local revenue, if any, resulting from the passage of this bill is unknown. The magnitude depends on whether voters in the Eastern Virginia Transportation District approve the referendum vote in the November 5, 2002 election. If the referendum is approved, revenues are estimated to increase in FY 04 by \$131.2 million for the Eastern Virginia Transportation District.

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  
Eastern Virginia Transportation 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 1 percent in the Eastern Virginia Transportation District, upon referendum vote approval.

This bill establishes the Eastern Virginia Transportation District, which would consist 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.

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 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.

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

The additional state sales and use tax imposed in the Eastern Virginia Transportation District 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 in the Eastern Virginia Transportation District would be applicable to items sold through vending machines. Provided the referendum is approved, persons operating vending machines in the Eastern Virginia Transportation 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.

### **Disposition of Revenues**

The revenue derived from the state sales and use tax increase in the Eastern Virginia Transportation District imposed in this bill will be deposited in the Special Fund Account of the Hampton Roads Planning District Commission and used to fund transportation projects in the district.

The sixth enactment clause specifies that revenues generated from the passage of this bill and distributed to the Hampton Roads Planning District Commission will not diminish or replace allocations or appropriations for transportation from other sources.

### **Similar Legislation**

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

Senate Bill 40 would authorize the City of Winchester to impose 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.

cc : Secretary of Finance

Date: 02/15/02/WBS

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