

# DEPARTMENT OF TAXATION

## 2003 Fiscal Impact Statement

1. **Patron** Van Yahres

3. **Committee** House Finance

4. **Title** Repeal of the Personal Property Tax Relief Act of 1998

2. **Bill Number** HB 1605

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would repeal the Personal Property Tax Relief Act of 1998 (the "PPTRA").

This bill would be effective January 1, 2004.

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

#### 6a. **Expenditure Impact:**

##### **Department of Motor Vehicles:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2002-03	\$0	0	SF
2003-04	\$0	0	SF
2004-05	<\$234,070>	<7>	SF

##### **Department of Taxation:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2002-03	\$0	GF
2003-04	<\$400,000>	GF
2004-05	<\$400,000>	GF

7. **Budget amendment necessary:** Yes.

Item(s): 510, Personal Property Tax Relief Program  
283 and 285, Department of Taxation.

### 8. **Fiscal implications:**

#### **Revenue Implications**

This bill would increase the amount of general fund revenues available for other appropriations. It is estimated that this bill will eliminate PPTRA reimbursements to localities by \$226.2 million in FY 2004, \$920.4 million in FY 2005 and \$1 billion in FY 2006.

## **Administrative Costs**

### **Department of Taxation:**

This bill would eliminate the need for the Department of Taxation to audit the PPTRA, resulting in an administrative cost savings to the Department of \$400,000 a year beginning in FY 2004.

### **Department of Motor Vehicles:**

This bill would eliminate the Department of Motor Vehicles' (DMV) administration of the PPTRA. DMV estimates that this bill will result in administrative costs savings to DMV of \$234,070 in FY 2005 and \$468,140 in following years. This estimate is based on the assumption that the Department of Motor Vehicles will reconcile all PPTRA disbursements that were made up until January 1, 2004. This task will not be completed until January, 2005.

## **9. Specific agency or political subdivisions affected:**

Department of Motor Vehicles  
Department of Taxation  
All localities

## **10. Technical amendment necessary: None.**

## **11. Other comments:**

### **Background**

The PPTRA eliminates the tangible personal property tax imposed on the first \$20,000 of value on passenger cars, pickup or panel trucks, and motorcycles owned or leased by natural persons and used for nonbusiness purposes.

The tax was originally scheduled to be eliminated over five years with 12.5% of the tax eliminated in 1998, 27.5% in 1999, 47.5% in 2000, 70% in 2001, and 100% in 2002 and thereafter. The tax on vehicles valued at \$1,000 or less was completely eliminated in 1998. The amount of the tax relief is shown on the taxpayer's bill and the Commonwealth reimburses localities for the amount of the tax relief.

The PPTRA provides a mechanism for freezing the tax relief if the Commonwealth's revenue growth is insufficient. The percentage of tax relief is frozen at the current percentage of tax relief in effect if any one of three revenue growth tests is not met. When revenue growth returns, the percentage of tax relief will increase to the next highest level of tax relief. The level of tax relief is currently frozen at 70%.

## **PPTRA Compliance Program**

Language in the budget bill requires the Department of Taxation, with cooperation from the Department of Motor Vehicles, the Department of Accounts and local officials, to develop and implement a comprehensive PPTRA compliance program to enhance taxpayer knowledge and compliance with the PPTRA and to ensure that relief under the PPTRA is only granted to qualifying vehicles. The program includes methods for educating motor vehicle owners, certifications from motor vehicle owners during any vehicle registration that the vehicle qualifies for relief, and a periodic audit of the personal property tax records of localities to ensure compliance with the PPTRA.

## **Additional Legislation**

**HB 2047** would reduce the PPTRA reimbursement from 70 percent to 59.5 percent from July 1, 2003, to July 1, 2005. Additionally, this bill would make a number of other revenue adjustments to various taxes. These amendments include:

- increasing the beer and beverage excise tax by one cent per 12 ounce container,
- limiting the dealers discount for collecting and remitting the retail sales and use tax to \$400 per month for each certificate of registration.
- increasing the cigarette tax from 2.5 cents to 7.5 cents per pack, and
- increasing the motor fuel tax by two cents per gallon.

**HB 2084** would reduce the PPTRA reimbursement amount in tax years 2003, 2004 and 2005 to such an amount that would not cause a decrease in the amount of revenues appropriated for K-12 education and law enforcement in 2002, adjusted for inflation. The Governor and the chairmen of the House and Senate Finance Committees would determine that percentage and adjust it annually if necessary. The percentage would return to the next highest percentage no later than 2006.

**HB 2170** would reduce the PPTRA reimbursement amount from 70 percent to 27.5 percent, beginning January 1, 2003. The reimbursement amount would remain at 27.5 percent until the general fund revenues, including transfers, for the most recently ended fiscal year after 2004 equal or exceed the amount of such revenues collected in tax year 2000 and adjusted for inflation.

**HB 2363** would reduce the PPTRA reimbursement amount from 70 percent to 50 percent, for tax years beginning on and after January 1, 2003. The reimbursement amount would remain at 50 percent until the general fund revenues, including transfers, for the most recently ended fiscal year after 2004 equal or exceed the amount of such revenues collected in tax year 2000 and adjusted for inflation.

**SB 949** would reduce the PPTRA reimbursement amount to 47.5 percent for calendar year 2003. The level of tax relief is set at 70 percent for calendar year 2004 and 100 percent for calendar year 2005 and thereafter, subject to the conditions described under § 58.1-3524. The bill provides that the General Assembly intends that the savings from the reduction of

personal property tax relief from 70 percent to 47.5 percent shall be appropriated for educational purposes.

**SB 1176** would reduce the PPTRA reimbursement amount from 70 percent to 47.5 percent for tax years beginning on and after January 1, 2003. The reimbursement amount would remain at 47.5 percent until the general fund revenues, including transfers, for the most recently ended fiscal year after 2004 equal or exceed the amount of such revenues collected in tax year 2000 and adjusted for inflation.

cc : Secretary of Finance

Date: 01/12/03

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