

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Darner

2. **Bill Number** HB 1711

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Watercraft Sales and Use Tax: Increase
Tax Rate to 3% and Raise Cap to \$2,500;
Aircraft Sales and Use Tax: Increase tax
Rate to 3%

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the Watercraft Sales and Use Tax rate from 2% to 3% and would raise the existing maximum tax from \$2,000 to \$2,500.

This bill would also increase the Aircraft Sales and Use Tax rate from 2% to 3%.

The effective date of this bill is not specified.

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>
2002-03	\$56,600	0	GF
2003-04	\$11,800	0	GF
2004-05	0	0	

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	0	
2003-04	\$4.9 million	GF and special A/C Fund
2004-05	\$6.8 million	GF and special A/C Fund

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

Items 283 and 285, Department of Taxation

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8. **Fiscal implications:**

Expenditure Impact - This bill would result in administrative costs of \$56,600 and \$11,800 in FY 03 and FY 04, respectively, for the Department. These costs would be primarily for systems development and related costs.

Revenue Impact - Increasing the Watercraft Sales and Use Tax rate from 2% to 3% would result in an estimated increase in tax revenues of \$2.16 million in FY 04 and \$2.99 million in FY 05. These estimates do not include any increases in revenue which would be generated by raising the current cap on the Watercraft Sales and Use Tax from \$2,000 to \$2,500. The impact created by raising the cap cannot be calculated. Accordingly, the estimated increases represent gains from the tax rate increase only.

Increasing the Aircraft Sales and Use Tax rate from 2% to 3% would result in an estimated increase in tax revenues of \$2.8 million in FY 04 and \$3.8 million in FY 05.

9. Specific agency or political subdivisions affected:

Department of Aviation
Department of Game and Inland Fisheries
Department of Taxation

10. Technical amendment necessary: No

11. Other comments:

Watercraft Tax Issues

This bill would increase the Watercraft Sales and Use Tax (Watercraft Tax) rate from 2% to 3% and would also raise the \$2,000 cap currently in place on the Watercraft Tax to \$2,500. In effect, this bill would impose the same tax rate on the sale or use of watercraft as is currently imposed on motor vehicles.

Watercraft Tax may be collected by the Department of Game and Inland Fisheries (DGIF) and the Department of Taxation. The funds collected through the Watercraft Tax are deposited in the General Fund and allocated to the Game Protection Fund administered by DGIF. In fiscal year 1999, 75% of the Watercraft Tax was so allocated, increasing to 100% in fiscal year 2000 and thereafter. These funds are used by DGIF to satisfy expenses associated with boating-related activities and expenses and to improve recreational opportunities for boaters.

Prior to July 1, 1997, a "watercraft" included (1) vessels 15 feet or longer in length and powered by a motor in excess of 25 horsepower, and (2) sailboats longer than 18 feet. The 1997 General Assembly amended the definition of "watercraft" to include any vessel on the water propelled by machinery. This new definition primarily affected small motor boats and jet skis. Prior to the 1997 amendment, these small motor boats and jet skis were deemed to be tangible personal property and taxed at the retail sales and use tax rate of 4.5%. Because of the 1997 amendment, small motor boats and jet skis, as well as larger motor

boats and sailboats, are currently taxed as “watercraft” at the 2% rate, with a maximum tax of \$2,000.

Specifically excluded from the definition of “watercraft” are vessels that hold marine documentation issued by the United States Coast Guard. Because these vessels are not included in the definition of “watercraft,” they are taxed as tangible personal property at the 4.5% retail sales and use tax rate. Accordingly, this bill would have no effect on these Coast Guard documented vessels.

In addition to the 2% Watercraft Tax, watercraft are generally subject to titling and registration fees. The titling fee is currently set at \$7.00. Registration fees currently range from \$27.00 to \$45.00 (depending on the length of the watercraft) and are paid every three years. Titling and registration fees are imposed and collected by, or on behalf of, DGIF.

Aircraft Tax Issues

This bill would increase the Aircraft Sales and Use Tax (Aircraft Tax) rate from 2% to 3%. In effect, this bill would impose the same tax rate on the sale or use of aircraft as is currently imposed on motor vehicles.

The Aircraft Tax is collected by the Department of Taxation and paid into the state treasury. These revenues are credited to a special fund within the Commonwealth Transportation Fund. This special fund is administered by the Department of Aviation and used for the promotion and development of aviation and airports, the administration of aviation laws, and the construction, maintenance, and improvement of airports.

This bill will have no impact on the allocation of the Watercraft Tax or the Aircraft Tax.

cc : Secretary of Finance

Date: 01/11/03 SMS

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