DEPARTMENT OF TAXATION
2003 Fiscal Impact Statement

1. Patron Woodrum

2. Bill Number HB 2047

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Omnibus Fiscal Emergency Recovery Act of 2003

5. Summary/Purpose:

This bill would make a number of temporary tax rate changes and adjustments to various state taxes. These changes include:

- Increasing the beer and beverage excise tax the equivalent of one cent per 12 ounce container,
- Limiting the dealer's 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,
- Increasing the motor fuel tax by two cents per gallon, and
- Reducing the tax relief granted pursuant to the Personal Property Tax Relief Act of 1998 (the "PPTRA") from 70% to 59.5%.

The bill would be effective July 1, 2003, through July 1, 2005.

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

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Fund*
2002-03	$474,700	GF
2003-04	$347,700	GF
2004-05	$186,500	GF

6b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2002-03	$2.8 million	GF
2003-04	$66.3 million	GF
	$110.9 million	TTF
	$179,000	Local
2004-05	$71.4 million	GF
	$114.7 million	TTF
	$194,000	Local

7. Budget amendment necessary: Yes.

ITEM(S): Page 1, Revenue Estimates
283 and 285, Department of Taxation
510, Personal Property Tax Relief Program

8. Fiscal implications:

Administrative Costs

The Department would incur costs of $474,700 in Fiscal Year 2003, $347,700 in Fiscal Year 2004, and $186,500 in Fiscal Year 2005 to administer this bill. These costs would be necessary for systems design, development, and implementation, error resolution, and production and design of new tobacco stamps.

The Department of Alcoholic Beverage Control anticipates incurring minimal costs to implement this bill.

Revenue Impact

The total estimated revenue impact of this bill would be $2.8 million in Fiscal Year 2003, $177.4 million in Fiscal Year 2004, and $186.2 million in Fiscal Year 2005. However, a portion of the revenue generated from the retail sales and use tax and motor fuels taxes are designated to specific funds. It has been assumed that the increased revenue from these taxes would be deposited into their appropriate funds.

This bill would increase General Fund revenues by $2.8 million in Fiscal Year 2003, $66.3 million in Fiscal Year 2004, and $71.4 million in Fiscal Year 2005. Revenues for the Transportation Trust Fund would increase by $110.9 million in Fiscal Year 2004 and $114.7 million in Fiscal Year 2005. Local revenues would increase by $179,000 and $194,000, respectively.

In addition, the Department estimates that this bill would decrease PPTRA reimbursement expenditures by $32.4 million in Fiscal Year 2003, $131.8 million in Fiscal Year 2004, $143.2 million in Fiscal Year 2005, and $151.6 million in Fiscal Year 2006. This estimate is based on the November 1, 2002 forecast. The reimbursement level is forecasted to remain at 70% through Fiscal Year 2006 under current law, and at 59.5% through Fiscal Year 2006 if this bill is enacted.

9. Specific agency or political subdivisions affected:

Department of Motor Vehicles
Department of Alcoholic Beverage Control
Department of Taxation

10. Technical amendment necessary: Yes.

Because the number of cigarettes included in a pack varies, the Department suggests the following technical amendments to express the proposed tax rate at a per cigarette rate rather than a per pack rate:

Page 2, Line 72. After: ~~quarter mills~~
Strike: 7.5
Insert: 0.375

Page 2, Line 72. After: on each
Unstrike: such cigarette

Page 2, Line 72. After: ~~such cigarette~~
Strike: pack of cigarettes

As currently drafted, this bill would provide that the PPTRA reimbursement amount would remain at 59.5% until such time as the general fund revenues 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. As general fund revenues are accounted for on a fiscal year basis, rather than a tax year basis, the following technical amendment is suggested:

Page 3, Line 141. After: collected in
Strike: tax
Insert: fiscal

In order to clarify that the effective date of the reduction in the PPTRA reimbursement rate would be January 1, 2003, the following amendment is suggested:

Page 6, Line 280. After: 2.
Strike: That
Insert: Except as otherwise provided, that

11. Other comments:

Beer and Wine Cooler Excise Tax

The excise tax on beer was enacted by the General Assembly in 1934. The tax was levied on all beer manufactured and sold in Virginia at the rate of $2.75 per 31 gallon barrel and one cent per 12 ounce bottle. Originally, the Tax Commissioner administered the tax. In 1988, the administration of the tax was transferred to the Department of Alcoholic Beverage Control. For Fiscal Year 2002, the Department of Alcoholic Beverage Control collected $66 million in excise taxes for the General Fund.

Currently, the excise tax on beer and wine coolers is assessed at the rate of:

- Twenty-five and sixty-five hundredths cents per gallon per barrel;
- Two cents per bottle on bottles of not more than 7 ounces each;

- Two and sixty-five hundredths cents per bottle on bottles of more than 7 ounces each but not more than 12 ounces each; and
- Two and twenty-two one hundredths mills per ounce per bottle on bottles of more than 12 ounces each.

Under this bill, the excise tax on beer and wine coolers would increase to:
- Thirty-five and one-third cents per gallon per barrel;
- 2.75 cents per bottle on bottles of not more than 7 ounces each;
- 3.65 cents per bottle on bottles of more than 7 ounces each but not more than 12 ounces each; and
- 0.3 cent per ounce per bottle on bottles of more than 12 ounces each.

Retail Sales and Use Tax Dealers Discount

Dealers that collect Virginia retail sales and use taxes are allowed a discount from the tax owed as compensation for registering, collecting and remitting sales and use taxes owed to the state. The discount is equal to 2.0%, 3.0%, or 4.0%, depending on the volume of monthly taxable sales, of the first 3.0% of the state tax due. No discount is allowed on the additional 0.5% state tax designated for the Transportation Trust Fund or on the 1% local portion of the tax. The percentage of dealer's discount is computed according to the following schedule:

Monthly Taxable Sales	Percentage
$0 to $62,500	4%
$62,501 to $208,000	3%
$208,001 and above	2%

Under this bill, the dealer’s discount would be limited to a maximum of $400 per month for each certificate of registration. For dealers filing consolidated sales and use tax returns, a maximum of $400 dealer’s discount could be deducted for each location included in the consolidated return.

Cigarette Tax

Virginia first imposed a state cigarette tax in 1960, at a rate of three cents per pack. A similar tax was also imposed on cigars. The tax rate on cigarettes remained at three cents per pack until 1966, when Virginia imposed a sales and use tax and simultaneously lowered the cigarette tax to 2.5 cents per pack, where it remains today. The tax on cigars was repealed in 1966 and Virginia currently taxes no other tobacco product other than cigarettes. Virginia’s cigarette tax is currently the lowest state cigarette tax in the nation.

The cigarette tax is paid by wholesale dealers through the purchase of stamps, which must be affixed to each container from which cigarettes are sold. A discount equal to 2.5 cents for a ten-pack carton of cigarettes is available to wholesalers that stamp cigarettes. Wholesalers file a monthly report with the Department showing the quantities of cigarettes purchased and stamped.

This bill would raise the cigarette tax rate from 2.5 cents per pack (one and one-quarter mills per cigarette) to 7.5 cents per pack (0.375 cent per cigarette).

Motor Fuel Tax

The motor fuels tax is imposed as the fuels leave the terminal rack. The terminal rack is the point at which fuels physically leave a terminal and are delivered into a tank truck, rail car, or other means of transfer. The only exception is when fuels are imported into Virginia by ways other than the terminal transfer system or when fuels are blended in Virginia outside the terminal transfer system. In these cases, taxes are imposed upon import or blending. Suppliers, Importers, Blenders, Aviation Consumer, Alternative Fuel Providers, Retailers of Alternative Fuel, and Bulk Users of Alternative Fuel remit the fuels tax to the Department of Motor Vehicles.

Currently, the motor fuels tax is assessed at the following rates:

- 17.5 cents per gallon on gasoline and gasohol;
- 16 cents per gallon on diesel fuel;
- 5 cents per gallon on aviation gasoline;
- 17.5 cents per gallon on aviation gasoline for use in highway vehicles;
- 5 cents per gallon per gallon on aviation jet fuel;
- 0.5 cents per gallon on all aviation jet fuel purchased or acquired for use by an aviation consumer in excess of 100,000 gallons in any fiscal year; and
- 16 cents per gallon on aviation jet fuel for use in highway vehicles;

Under this bill, the motor fuels tax rates would increase to:

- 19.5 cents per gallon on gasoline and gasohol;
- 18 cents per gallon on diesel fuel;
- 7 cents per gallon on aviation gasoline;
- 19.5 cents per gallon on aviation gasoline for use in highway vehicles;
- 7 cents per gallon per gallon on aviation jet fuel;
- 2.5 cents per gallon on all aviation jet fuel purchased or acquired for use by an aviation consumer in excess of 100,000 gallons in any fiscal year; and
- 18 cents per gallon on aviation jet fuel for use in highway vehicles;

Personal Property Tax Relief Act of 1998

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. Should any one of the following "triggers" occur, the next level of the phase-out would not take effect:

- Actual General Fund revenues for a fiscal year, including transfers, are less than the projected general fund revenues, as reported in the general appropriation act in effect at the time, by one-half of one percent or more of the amount of actual General Fund revenues for such fiscal year;

- The General Fund revenue forecast provided by the Governor in December indicates that General Fund revenues, excluding transfers, for any fiscal year will be less than five percent greater than General Fund revenues for the immediately preceding fiscal year; or

- The General Fund revenue forecast provided by the Governor in December indicates that total General Fund revenues available for appropriation, including transfers, for either of the fiscal years covered by the general appropriation act in effect at that time will be less than the General Fund appropriations for such fiscal year or years.

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%.

This bill would change the current schedule for increasing the PPTRA reimbursement levels. For tax years beginning in 2003, the reimbursement amount would be 59.5%. Regardless of the current triggers for freezing the reimbursement level, the reimbursement level would remain at 59.5% until 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. Once this requirement is satisfied, the reimbursement level would increase to 70%, regardless of the current triggers for freezing the reimbursement level. Subsequently, reimbursement levels would rise unless frozen because one of the three tests currently in place is triggered.

Effective Date

The amendments proposed by this bill would be effective July 1, 2003, through July 1, 2005. The Department, however, has suggested an amendment to clarify that the reduced PPTRA reimbursement rate would be effective January 1, 2003.

cc : Secretary of Finance

Date: 01/21/03 DTM
Document : S:\2003leg\WorkInProcess\OTPwork\House Bills\HB2047F161.doc