

# DEPARTMENT OF PLANNING AND BUDGET

## 2002 Fiscal Impact Statement

**1. Patron**     May

**3. Committee**     Finance

**4. Title**     Individual Income Tax: Distribution of  
Individual Income Tax Revenue to Localities

**2. Bill Number**     HB575

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:** This bill would establish the Localities' Share of Individual Income Tax Revenue Fund (the "Fund"). A portion of individual income tax revenues would be deposited into the Fund for distribution to localities. The first deposit would be made by September 1, 2003, based on two percent of individual income tax collections for fiscal year 2002. The percentage of individual income taxes deposited into the Fund would increase two percent each year until it reaches 10 percent in fiscal year 2007. Distribution to counties would be shared with towns located within the counties based on the towns' relative share of total population within the county.

**6. Fiscal Impact Estimates are:** Preliminary

**Expenditure Impact:**

*Transfer to Localities*

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2001-02	\$0	0.00	N/A
2002-03	\$149.6 million	0.00	GF
2003-04	\$314.9 million	0.00	GF

*Tax Department Expenditures*

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2001-02	\$0	0.00	N/A
2002-03	\$484,943	6.00	GF
2003-04	\$196,200	6.00	GF

**7. Budget amendment necessary:** Yes. Items 283 and 285, Department of Taxation

**8. Fiscal implications:** This bill would have no effect on General Fund revenues. However, a significant portion of the General Fund would be transferred to localities. Distribution to localities are estimated to be \$149.6 million for fiscal year 2003, \$314.9 million for fiscal year 2004, and \$500.8 million for fiscal year 2005.

*Administrative Costs* : There are costs associated with modifying the system to implement this legislation. The Tax Department is currently in the process of replacing its automated systems as part of a partnership with American Management Systems (AMS). As a result, the Department 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, system changes will not be paid through the AMS contract. Therefore, the department would incur \$243,743 in fiscal year 2003 in systems development costs as a result of this bill. In addition, the department would incur \$241,200 in fiscal year 2003 and \$196,200 in fiscal year 2004 and thereafter in customer service costs for an additional six full-time positions.

**8. Specific agency or political subdivisions affected:** State Comptroller, State Treasurer, Department of Taxation, Localities

**9. Technical amendment necessary:** None

**10. Other comments:** This bill would create the Localities' Share of Individual Income Tax Revenue Fund (the "Fund"). By August 1 of each year, a portion of individual income tax revenues from the preceding fiscal year would be deposited into the Fund. The first deposit to the Fund equal to two percent of individual income tax revenues for fiscal year 2002 would be required by August 1, 2003. In succeeding years, the percentage of individual income tax revenues required to be deposited would increase by two until it reaches 10 percent in 2007. The following table shows how the percentage would increase:

<b>Required Deposit of Individual Income Tax Revenues</b>	<b>Deposit Date</b>	<b>Percentage</b>	<b>Fiscal Year Revenue</b>
	August 1, 2003	2%	2002
	August 1, 2004	4%	2003
	August 1, 2005	6%	2004
	August 1, 2006	8%	2005
	August 1, 2007 and thereafter	10%	2006

Distribution from the Fund would be made to localities by September 1 of each year. The first distribution would be made by September 1, 2003. The Fund would be distributed based on a statutory formula. Under this formula, 50 percent would be distributed based on the relative share of income tax paid by individuals filing returns in each locality, 40 percent would be distributed based on where wages are earned and 10 percent would be distributed equally among all 135 counties and cities. Further distributions would be made to towns from one-half of a county's distribution based on the towns' relative share of total population within the county.

The department already captures the data for the distribution of 50 percent of the Fund. However, the data for the 40 percent of the distribution is based on wage reports submitted by employers to the Virginia Employment Commission. Employers that operate in more than one location are allowed to report all of their wages in the locality in which their operation are based. As a result, this data would include wages reported in one locality, but actually earned in another.

### **Local Option Income Tax**

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individuals and corporations in addition to the state income tax rate. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts, and corporations at any increment of one-quarter percent up to a maximum rate of one percent. Cities and counties can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes. No city or county currently imposes the local income tax.

### **Other Legislation**

**Senate Bill 380** and **House Bills 575 and 961** are identical.

**House Bill 699** would distribute to each county or city the greater of (i) the county or city's share of fifteen percent of the individual income tax revenues for the prior fiscal year or (ii) the indexed revenue the county or city received in 2004 from the tangible personal property tax on nonbusiness use motor vehicles.

**House Bill 770** would amend the local option income tax to allow any county or city to impose the tax at a rate of either one-half or one percent with the adoption of an ordinance.

**House Bill 1018** would require eligible Northern Virginia localities that enact a local income tax to use the proceeds from the tax for transportation projects approved by the Transportation Coordinating Council of Northern Virginia in December 1999.

**House Bill 1238** would increase the corporate income tax rate and the individual income tax rates in each tax bracket by one percent. The additional income tax revenues would be distributed to localities based on the residence of each individual taxpayer (individual income tax) and each locality's share of total full-time employees (corporate income tax). This bill would also limit the tax rate localities could levy on personal property at \$0.01 per \$100 of assessed value.

cc: Secretary of Finance

Date: 1/28/2002

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