DEPARTMENT OF TAXATION
2002 Fiscal Impact Statement

1. Patron Byron

2. Bill Number HB 699

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

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

3. Committee House Finance

4. Title Distribution of Individual Income Tax Revenues to Localities

5. Summary/Purpose:

This bill 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 total revenue the county or city received in 2004 from the tangible personal property tax on nonbusiness use motor vehicles. The county or city's share would be determined by the most recently completed analysis of the individual income tax liability of the residents of the city or county. Distributions to counties would be shared with towns located within the counties based on the towns' relative share of total population within the county.

This bill would be effective on January 1, 2005, but only if a constitutional amendment is enacted that exempts nonbusiness use motor vehicles from the personal property tax and requires that the state distribute at least 15% of individual income tax revenues to localities.

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

7. Budget amendment necessary: No.

8. Fiscal implications:

Administrative Costs

The department would incur administrative costs of $318,513 in Fiscal Year 2005 for systems development and customer services. Included in these costs are 6 additional full time positions that would be necessary to properly implement this bill.

This bill, if the Constitutional amendment is passed, would relieve the Department of Motor Vehicles ("DMV") and the Auditor of Public Accounts from administrative responsibilities of tracking local reimbursements associated with the Personal Property Relief Act of 1998 (PPTRA). However, in the first year, it is estimated that the DMV would incur administrative costs of $20,000 for systems changes.

This bill would also create administrative relief and a reduction in responsibility for local commissioners of the revenue and treasurers in assessment, billing and collections responsibilities associated with both the tangible personal property tax on nonbusiness motor vehicles and the PPTRA.

Revenue Impact

This bill would have no effect on General Fund revenues. However, a significant portion of the General Fund would be unavailable for appropriation, as this amount would be transferred to localities. This bill would reduce the General Fund revenues that would be available for appropriation by $27.8 million in FY 2005 and $142.9 million in FY 2006. This amount represents the difference between the forecasted amount of reimbursements under the PPTRA at 100% and the total amount of revenue that would be distributed to localities under this bill.

The funds that would be unavailable for other appropriation can be broken down into two parts. First, there is the cost of removing the $20,000 cap from the PPTRA reimbursements, and second, the remaining costs are the additional revenues that would be distributed to localities under this plan. According to preliminary DMV numbers, the cost of removing the $20,000 value cap would be $11.1 million in FY 2005 and $46.8 million in FY 2006. The additional revenues that would be distributed to localities would be $16.7 million in FY 2005 and $96.1 million in FY 2006.

The impact of this bill does not include the cost of increasing PPTRA reimbursements from 70% to 100%. If PPTRA reimbursements are not set at 100% prior to 2005, the cost, over what was stated above, of moving from 70% to 100% in 2005 would be $124.3 million in FY 2005 and $398.2 million in FY 2006.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Motor Vehicles
Localities

10. Technical amendment necessary: Yes.

In order to correct a mislabeled definition, the following technical amendments are suggested:

Page 2, Line 101, at the end of the line
Insert: "County and city's share" means the percentage of individual income tax liability attributable to the residents of each locality, as determined by the Tax Commissioner. In applying the "county and city's share" to this chapter, the Tax Commissioner may use data

from the most recently completed analysis of individual income tax liability attributable to the residents of each county and city.

Page 3, Line 108, at the beginning of the line
Strike: Lines 108 through 111

In order to ensure that the personal property tax imposed by incorporated towns is properly accounted for, the following technical amendment is suggested:

Page 3, Line 142, at the end of the line
Insert: For the purposes of this section, revenues collected by an incorporated town for calendar year 2004 from the tangible personal property taxation of privately owned motor vehicles used for nonbusiness purposes at the effective tax rate in effect in the incorporated town on July 1, 1997, or August 1, 1997, whichever is greater, shall be considered to be collected by the county wherein the incorporated town is situated.

In order to clarify the intent of this bill, the following technical amendment is suggested:

Page 3, Line 149, After: receive
Strike: the
Insert: its share of

11. Other comments:

Background

Personal Property Tax on Motor Vehicles

The Personal Property Tax Relief Act (the "PPTRA") calls for a phase out of the tax based on local tax rates in effect on August 1, 1997. Under the Act, the tax on the first $20,000 of value of personal passenger cars, motorcycles, and pickup or panel trucks under 7,501 pounds is scheduled to be eliminated. The phase out involves the Commonwealth's reimbursement to localities for the local revenues forgone under the phase out.

Local Income Tax

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individual residents of the localities and corporations, estates, and trusts with income from sources within the localities. 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 ¼% up to a maximum rate of 1% above the state income tax rate. Counties and cities 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.

Proposal

This bill would eliminate the personal property tax on all nonbusiness use vehicles and replace the localities' revenue with a share of the individual income tax. In addition, this bill would eliminate the administrative structure of the PPTRA and would also repeal the local option income tax statute currently in Virginia law.

Beginning in 2005, each locality would receive the greater of their 2004 revenue from the personal property tax on personal use vehicles adjusted for growth or their share of 15% of the prior fiscal year's individual income tax revenues. The growth adjustment for the personal property tax revenue would be the statewide average aggregate growth of revenue from the personal property tax on personal use vehicles for calendar years 2001 through 2004 plus 1%. Each locality's share of the individual income tax is determined by the individual income tax liability of the residents of each locality.

The timing of the distributions of revenues would be based on the distributions made under the PPTRA. As of January 1, 1998, if 100% of a locality's personal property tax was due before June 30, then it will receive its distribution of revenue on May 15. **f** a locality's personal property tax is due before and after June 30, then it will receive 50% of its distribution of revenue on May 15 and 50% of its distribution of revenue on November 15. **f** 100% of a locality's personal property tax was due after June 30, then it will receive its distribution of revenue on November 15.

Once each locality receives a distribution based on individual income tax and such distribution exceeded their indexed personal property tax revenue by 2%, then the locality would not be subject to the comparison in subsequent years and would receive their distribution based on income tax in all subsequent years.

By April 1, 2005, the Department of Motor Vehicles and each locality would be required to reconcile the 2004 PPTRA reimbursement, which is to be used as a basis for all future distributions of revenue under this bill. Once completed, the Commissioner of the Department of Motor Vehicles would certify the reconciled amounts to the Tax Commissioner. If it is determined that the correct amount has not been paid to a locality, the Tax Commissioner would increase the first distribution of revenue by the underpayment or reduce the first distribution of revenue by the overpayment. If any reconciliation is not completed prior to the first distribution of revenue, then the appropriate adjustment would be made to the next distribution of revenue to the prospective locality.

Other Legislation

House Joint Resolution 117 proposes an amendment to the Constitution of Virginia that exempts personal use motor vehicles from the property tax and provides that at least 15% of the individual income tax must be distributed to local governments.

House Bill 575, **House Bill 961**, and **Senate Bill 380** 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 percentage of individual income taxes deposited into the Fund would increase 2% each year from 2% in 2003 until it reaches 10% in 2007.

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 1%. 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: 01/27/02 CT
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