

# DEPARTMENT OF TAXATION

## 2003 Fiscal Impact Statement

1. **Patron** Puckett

3. **Committee** Senate Finance

4. **Title** Personal Property Tax Relief Act of 1998;  
Reimbursement Amounts

2. **Bill Number** SB 1176

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would reduce the Personal Property Tax Relief Act of 1998 (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 fiscal year 2000 and adjusted for inflation.

The effective date of this bill is not specified.

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

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

Item(s): 510, Personal Property Tax Relief Program

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

The Department estimates that this bill will result in decreased state PPTRA reimbursement expenditures of \$69.4 million in FY 2003, \$282.4 million in FY 2004, \$306.8 million in FY 2005 and \$324.8 million in FY 2006. This estimate is based on the November 1, 2002 forecast. The reimbursement level is forecasted to remain at 70% through FY 2006 under current law, and at 47.5% through FY 2006 if this bill is enacted.

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

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

- C 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;
- C 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
- C 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%.

**Proposal**

This bill would change the current schedule for increasing the PPTRA reimbursement levels. For tax years beginning in 2003, the reimbursement amount would be 47.5 percent. Regardless of the current triggers for freezing the reimbursement level, the reimbursement level would remain at 47.5% 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 fiscal year 2000 and adjusted for inflation. "Inflation" is defined as the percentage change in the implicit price deflator for personal consumption expenditures for the United States as

published for the most recent 12-month period by the Bureau of Economic Analysis of the U.S. Department of Commerce. If this requirement is satisfied, the reimbursement level would increase to 70 percent, 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.

### **Additional Legislation**

**HB 1605** and **SB 1266** would repeal the PPTRA effective January 1, 2004.

**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.

cc : Secretary of Finance

Date: 01/20/03

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