

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** Phillip A. Hamilton

2. **Bill Number** HB 1052

3. **Committee** House Finance

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales and Use Tax: Increases the State Retail Sales and Use Tax Rate

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would increase the state sales and use tax on non-food items by one-half percent, from 3½% to 4%. All revenues generated as the result of increase authorized by this bill will be used solely to 1) increase public school teachers salaries to the 2003 national averages, 2) fully fund the costs of all preschool programs for at-risk four year olds, and 3) fund full-time instructional positions in the areas of art, music and physical education.

The effective date of this bill is not specified.

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

#### 6a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$334,438	GF
2004-05	\$264,473	GF

#### 6b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2004-05	\$363.5 million	GF
2005-06	\$416.3 million	GF
<b>2006-07</b>	\$434.8 million	GF
<b>2007-08</b>	\$454.4 million	GF
<b>2008-09</b>	\$475.9 million	GF
<b>2009-10</b>	\$498.4 million	GF

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

Line 1, Revenue estimates.

Items 284 & 286, Department of Taxation

## 8. Fiscal implications:

### Administrative Costs

The Department would incur administrative costs of \$334,438 in FY 2004 for systems development, forms development, printing, and postage. The Department would also incur administrative costs of \$264,473 in FY 2005 for postage and wages. Some of the administrative costs that the Department would incur as a result of this bill are similar to the costs for some of the changes in the Governor's tax reform plan that are assumed in the Executive Budget. Assumed in the Executive Budget are costs of \$346,805 for FY 2004 and \$361,555 for FY 2005 to implement all of the changes to the sales and use tax proposed in the Governor's tax reform plan.

### Revenue Estimates

Compared to current law, state revenue is expected to increase by \$363.5 million in FY 2005, \$416.3 million in FY 2006, \$434.8 million in FY 2007, \$454.4 million in FY 2008, \$475.9 million in FY 2009, and \$498.4 million in FY 2010.

The Executive Budget assumes the passage of the Governor's tax reform proposal. The Governor's tax reform proposal contains provisions that would increase the state sales and use tax by one percent, as opposed to the one-half percent proposed in this bill. The following chart compares the General Fund revenue effects of this bill on current law with the changes to the General Fund revenue forecast, assumed in the Executive Budget, caused by these similar provisions in the Governor's tax reform proposal.

<b>Fiscal Year</b>	<b>Effect of HB 1052 on General Fund Revenue</b>	<b>General Fund revenue effect of similar provisions in the Governor's tax reform proposal</b>	<b>Difference between HB 1052 and similar provisions in the Governor's tax reform proposal</b>
2005	\$363.5 million	\$727.1 million	(\$363.5 million)
2006	\$416.3 million	\$832.6 million	(\$416.3 million)
2007	\$434.8 million	\$869.5 million	(\$434.8 million)
2008	\$454.4 million	\$908.8 million	(\$454.4 million)
2009	\$475.9 million	\$951.8 million	(\$475.9 million)
2010	\$498.4 million	\$996.7 million	(\$498.4 million)

## 9. Specific agency or political subdivisions affected:

Department of Taxation  
Department of Treasury  
Department of Accounts

**10. Technical amendment necessary: Yes.**

If this bill is intended to uniformly increase the state sales and use tax rate, amendments would be needed in §§ 58.1-604.1 (Use tax on motor vehicles, machinery, tools, and equipment brought into Virginia for use in performing contracts), 58.1-614 (Vending machine sales), 58.1-639 (Transitional provisions), and 58.1-3833 (County food and beverage tax).

**11. Other comments:**

Food Tax Reduction Program

The additional state sales and use tax imposed by this would not be applicable to food purchased for home consumption.

Distribution of Revenue

All revenues generated as the result of the increase authorized by this bill would be used solely to 1) increase public school teachers salaries to the 2003 national averages, 2) fully fund the costs of all preschool programs for at-risk four year olds, and 3) fund full-time instructional positions in the areas of art, music, and physical education.

Currently, the one percent sales and use tax dedicated for public education is distributed to localities based upon the most recent statewide census of school population taken by the Department of Education. The distribution of sales tax revenues is subtracted from the total cost of Basic Aid for each school division before Basic Aid is split into state and local shares based on the composite index of local ability-to-pay.

The additional ½ percent increase outlined in this bill would not be distributed to school divisions based on the census data and would not be subtracted from the total cost of Basic Aid. Instead, all incremental revenues would be provided to school divisions in the form of teacher salary increases, funding for at-risk programs, and funding for additional resource teachers.

Preliminary estimates by the DOE indicate that the cost to bring teacher salaries up to the national average is at least \$450 million in FY 2005 and \$470 million in FY 2006 (this estimate assumes a nominal increase to bring the salary amount used for funding up to a projected 2004 national average). The amount of funding to be provided for the at-risk four-year-old program and for additional resource teachers is entirely dependent on the level of incremental revenue generated in this bill. The bill does not indicate which (if any) of these three programs would be a priority for funding given the additional revenues available nor does the bill include a methodology for providing additional funding to the at-risk four-year-old program or for additional resource teachers.

Similar Legislation

House Bill 458 would increase the state sales and use tax 5%, from 3½% to 8½%, and repeal the Virginia individual income tax.

House Bill 531 would increase the state sales and use tax two percent, from 3½% to 5½%. Half of the revenue generated by this bill will be appropriated by the General Assembly solely to fund the Standard of Quality for Public Education, and the other half will be deposited in the Transportation Trust Fund.

House Bill 1270 would increase the state sales and use tax one-half percent, from 3½% to 4%. Revenues from the increase in this bill would be used solely for public education, one-half of which will be deposited in the At-Risk Student Academic Achievement Fund, and the other half distributed to localities based on a set amount per pupil.

House Bill 1286 would increase the state sales and use tax one percent, from 3½ percent to 4½ percent. One-half of the revenue generated would be distributed among all localities based on point of sale and used for public education. The other half shall be appropriated by the General Assembly for higher education in the Commonwealth.

House Bill 1366 would increase the state sales and use tax one-quarter percent, from 3.5% to 3.75%. All revenues would be dedicated to higher education with 25% distributed to the Virginia Community College System and to support operating costs, and 75% would be dedicated to various four-year public institutions of higher education with the recommendation of the Joint Subcommittee for Higher Education Funding Policies.

cc : Secretary of Finance

Date: 1/24/04 WBS