

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** James M. Scott

2. **Bill Number** HB 1090

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales and Use Tax:  
Increase Local Sales and Use Tax Rate  
for Mass Transit Purposes

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

5. **Summary/Purpose:**

This bill would authorize any county or city embraced within the Washington Metropolitan Area Transit Authority (WMATA) to impose a ½% local sales and use tax in addition to the 1 percent local sales and use tax currently imposed statewide. This would apply to the counties of Arlington and Fairfax and the cities of Alexandria, Fairfax and Falls Church. The additional tax shall not apply to food purchased for human consumption.

The tax shall be adopted by a local ordinance and would become effective on the later of the first day of a month at least 60 days after its adoption, or the first day of the month after which at least one other county or city shall have adopted the ordinance and the total population within the counties or cities having adopted such an ordinance comprises at least 50% of the total population of the counties and cities embraced within WMATA.

The bill also provides that each county and city that imposes the tax increase must reduce its real estate tax rate in the following year so that total annual real estate revenues are reduced by 40% of total revenue in the prior year from the additional sales tax.

The revenues generated by the tax increase would be used to pay for or promote mass transit systems. The bill would also require that the state not reduce funding for transportation purposes in any locality.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

6a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$0	GF
2004-05	\$1.372 million	GF
2005-06	\$33,900	GF
2006-07	\$15,200	GF
2007-08	\$15,700	GF
2008-09	\$16,100	GF
2009-10	\$16,600	GF

**7. Budget amendment necessary: No.**

Items 284 and 286, Department of Taxation

**8. Fiscal implications:**

**Administrative Costs**

The Department would incur administrative costs of \$1.372 million as early as fiscal year 2005, \$33,900 in fiscal year 2006, \$15,200 in fiscal year 2007, \$15,700 in fiscal year 2008, \$16,100 fiscal year 2009 and \$16,600 in fiscal year 2010 for systems modifications, processing, forms design and printing and postage. The timing of this impact will be dependent on the timing of when the affected localities act to impose this tax. If the effective date of the tax increase coincides with the Department's mailing cycle such that the final form designs are available by December 1 and the new rate becomes effective the following April, the printing costs would decrease by \$114,200 and the postage costs would decrease by \$37,000 in fiscal year 2005.

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 in fiscal year 2004 and \$361,555 for fiscal year 2005 to implement all of the changes to increase the sales and use tax proposed in the Governor's tax reform plan.

**Revenue Impact**

The revenue impact of this bill is unknown. A local revenue gain is dependent on which local governments adopt ordinances to raise the local sales and use tax rate. With a July 1, 2004 effective date for the legislation, a locality may adopt an ordinance as early as July 1, 2004, implying the higher tax rate could be effective September 1, 2004. The following table shows the amounts of revenue which might be raised in each of the localities embraced within WMATA if the sales and use tax rate increased on September 1, 2004. If the increase occurs later, the revenues would be less.

<b>Local Sales and Use Tax Increase*</b> (in millions)						
<b>Locality</b>	<b>FY2005 (9 months)</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY 2010</b>
Arlington County	\$10.3	\$14.4	\$ 15.0	\$ 15.8	\$ 16.5	\$ 17.3
Fairfax County	\$48.2	\$67.5	\$ 70.5	\$ 73.6	\$ 77.1	\$ 80.8
Alexandria	\$ 7.9	\$11.0	\$ 11.5	\$ 12.0	\$ 12.6	\$ 13.2
Fairfax City	\$ 3.6	\$ 5.0	\$ 5.3	\$ 5.5	\$ 5.8	\$ 6.0
Falls Church	<u>\$ 1.2</u>	<u>\$ 1.7</u>	<u>\$ 1.8</u>	<u>\$ 1.8</u>	<u>\$ 1.9</u>	<u>\$ 2.0</u>
<b>Totals</b>	<b>\$71.2</b>	<b>\$99.6</b>	<b>\$104.1</b>	<b>\$108.7</b>	<b>\$113.9</b>	<b>\$119.3</b>

\*The increase does not apply to food purchased for human consumption.

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

Department of Taxation  
Department of Treasury  
Department of Accounts  
County of Arlington  
County of Fairfax  
City of Alexandria  
City of Fairfax  
City of Falls Church

**10. Technical amendment necessary:** None.

**11. Other comments:**

**Generally**

All localities in the Commonwealth currently impose a 1% local sales and use tax, which is collected and remitted along with the 3½% state sales and use tax. This bill would increase the local sales and use tax by ½% for a total sales and use tax rate of 5% in those localities that approve such an increase by adoption of an ordinance.

The tax increase proposed by this bill is applicable to the local sales tax and the local use tax. This means that items of tangible personal property purchased in localities outside the localities embraced within WMATA, and brought into any such locality for use and consumption by the purchaser, would be subject to the additional ½% local use tax increase. The use tax is applicable to businesses as well as individuals.

**Sales of Food for Human Consumption**

This bill provides that the ½% local sales and use tax increase would not apply to food purchased for human consumption. Therefore, this bill would not affect the Food Tax Reduction Program.

**Sales Through Vending Machines**

In situations where the collection of the tax on sales proves to be impractical (vending machines sales), upon permission from the Tax Commissioner, vendors may pay the 4½% sales and use tax on the wholesale cost of items sold. The ½% local tax increase authorized by this bill would apply to items sold through vending machines. Therefore, persons operating vending machines in the localities embraced within WMATA, upon approval from the Tax Commissioner, would be required to pay the tax on the wholesale cost of items at the rate of 5%.

## **Disposition of Revenues**

The revenue derived from the local sales and use tax increase authorized by this bill would be credited to a special fund named "Collections of Local Sales Taxes for Mass Transit." The revenues would be credited to the account of each county and city imposing the additional local sales tax based on the Department's records. The counties and cities must use the revenues to pay for or promote mass transit systems.

## **Impact on Real Estate Tax**

The bill also provides that each county and city that imposes the tax increase must reduce its real estate tax rate in the following year so that total annual real estate revenues are reduced by 40% of total revenues in the prior year from the additional sales tax.

The revenues generated by the tax increase would be used to pay for or promote mass transit systems.

The bill would also require that the state not reduce funding for transportation purposes in any locality.

## **Similar Legislation**

House Bill 458 would increase the state sales and use tax rate by 5% and repeals the individual income tax.

House Bill 531 would increase the state sales and use tax rate by 2%. Revenues would be used for education and transportation.

House Bill 1052 would increase the state sales and use tax rate by ½%. Revenues would be used for education purposes.

House Bill 1092 would increase the local sales and use tax by 1%. Revenues would be used for education and transportation purposes.

House Bill 1270 would increase the state sales and use tax rate by ½%. Revenues would be used for education purposes.

House Bill 1286 would increase the state sales and use tax by 1%. Revenues would be used for education purposes.

House Bill 1366 would increase the state sales and use tax by .25%. Revenues would be used for education purposes.

cc : Secretary of Finance

Date: 2/6/2004/vhm