

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** H. Morgan Griffith

2. **Bill Number** HB 1241

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales and Use Tax:  
Dealers Filing Returns with Local Officials

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

5. **Summary/Purpose:**

This bill would allow sales tax dealers to file and pay the retail sales and use taxes to the local Commissioner of Revenue, local Treasurer or the Tax Commissioner.

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>Positions</b></i>	<i><b>Fund</b></i>
2003-04	\$0		
2004-05	\$1.254 million	3	GF
2005-06	\$46,000	3	GF
2006-07	\$35,000	3	GF
2007-08	\$36,000	3	GF
2008-09	\$37,000	3	GF
2009-10	\$38,000	3	GF

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

Items: 284 and 286 – Department of Taxation

8. **Fiscal implications:**

Administrative Costs

It would not be possible for the Department to implement the provisions of this bill by July 1, 2004. Therefore, the Department has requested an amendment to delay the effective date of this bill for one year. Assuming a July 1, 2005 effective date, the Department would incur administrative costs of \$1.254 million in fiscal year 2005 for systems modifications and personnel. TAX would incur additional personnel costs of \$46,000 in fiscal year 2006, \$35,000 in fiscal year 2007, \$36,000 in fiscal year 2008, \$37,000 in fiscal year 2009, and \$38,000 in fiscal year 2010. The Department's computer and processing systems would undergo a number of modifications in order to process the returns and payments remitted via the localities. The personnel costs are attributable to the Department hiring 3 FTE's to research return and payment inquiries.

In order for local tax officials to process sales tax payments in their local offices and to transmit the necessary data to the Department, each local tax office would have to invest in the necessary computer hardware and software.

#### Revenue Impact

To the extent that the processing of payments by local tax officials does not delay the deposit of sales tax payments, this bill would have no impact on state sales tax revenues.

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

Department of Taxation  
Department of Accounts  
Local Commissioners of Revenues  
Local Treasurers

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

In order to allow the Department sufficient time to implement a processing system to track sales tax payments made at the local tax offices, the Department requests the following amendment:

Page: 1, Line: 51, At the end of the line  
Insert: 2. That this act shall become effective on July 1, 2005.

#### **11. Other comments:**

##### Current Filing and Payment Requirements

Virginia law requires sales and use tax dealers to file a return and pay the amount of sales and use taxes due on the return by the twentieth day of the month following each reporting period in which the taxable transactions occurred. These returns and payments are submitted directly to the Department of Taxation for processing. Such returns may be submitted either in paper or in electronic form. Sales and use tax dealers file and pay the tax on a monthly or quarterly basis, as determined by the Tax Commissioner.

The Department has developed complex automated processing systems to process sales tax returns and payments. Through these systems, the Department is able process approximately 2 million sales tax returns per year, both paper returns with checks and electronically filed returns with EFT payments. Paper returns are converted into an electronic data format that is edited and posted to the proper taxpayer account. The locality data is captured and credited to the proper locality account for purposes of the local sales tax distribution. The returns are imaged and stored electronically for future reference.

These processing operations of the Department are supported by an experienced staff that responds to inquiries both from taxpayers and from sales tax dealers. In addition to answering technical questions regarding the taxability of various transactions, the

Department resolves issues with respect to processing of returns and the misapplication of payments.

### Proposal

This bill would allow dealers the option to file and pay the sales and use taxes directly to the local Commissioner of Revenue or the local Treasurer in the locality where the dealer is located. The local officials would then transmit the return and payment information to the Department. In order to facilitate the transmission of this data to the Department, local tax officials will need the proper processing hardware and software. In addition, it will be necessary for them to be able to capture images of the returns and electronically transmit these to the Department, also. In order to ensure a complete record exists with respect to each dealer's filings, the Department will need to maintain a record of all return transactions, even those that take place at the office of local tax officials.

Without the trained staff and the ability to access all of the Department's records, local tax officials will not be able to respond to many inquiries from dealers when they file their returns in the offices of the local tax officials.

### Streamlined Sales and Use Tax

House Bill 788 and Senate Bill 514 would conform Virginia's retail sales and use tax laws to the National Streamlined Sales and Use Tax Agreement that was adopted on November 12, 2002. The Streamlined Sales Tax Project is a project created by and comprised of participating governments of the States and the District of Columbia. Its goal is to develop measures to design, test and implement a sales and use tax system that radically simplifies sales and use taxes. By simplifying and conforming sales tax laws in the various states, it is anticipated that Congress will require out-of-state vendors to collect tax in states where they have no physical presence.

It is possible that this bill may conflict with the requirement in the Streamlined Sales and Use Tax Agreement that sales and use taxes be administered at the state level by the state's taxing authority. The agreement specifically requires that a dealer file and pay the sales and use taxes to the state level authority.

cc : Secretary of Finance  
Date: 2/10/2004/vhm