

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

1. **Patron** James M. Shuler

2. **Bill Number** HB 1286

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Retail Sales and Use Tax: Increase State
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 one percent, from 3.5% to 4.5%. One-half of the revenue generated as a result of the increase imposed in this bill will be distributed among all localities based on point of sales and be used for public education. The other half shall be appropriated by the General Assembly for higher education in the Commonwealth. The increase in this bill would not apply to food for home consumption.

The effective date of this bill is not specified.

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

6a. Expenditure Impact:

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

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	\$727.1 million	GF
2005-06	\$832.6 million	GF
2006-07	\$869.5 million	GF
2007-08	\$908.8 million	GF
2008-09	\$951.8 million	GF
2009-10	\$996.7 million	GF

7. Budget amendment necessary: Yes.

Line 1, Revenue estimates.
Items 284 and 286, Department of Taxation

8. Fiscal implications:

Administrative Costs

The Department would incur administrative costs of \$334,438 in FY 2004 for forms development, printing, postage, systems development. The Department would incur administrative costs of \$264,473 in FY 2005 for systems development, wages, and postage. 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 \$727.1 million in FY 2005, \$832.6 million in FY 2006, \$869.5 million in FY 2007, \$908.8 million in FY 2008, \$951.8 million in FY 2009, and \$996.7 million in FY 2010. The state sales and use tax rate increase proposed in this bill is same as that proposed in the Governor's proposal. Therefore, the General Fund revenue effects of this bill would not change the General Fund revenue estimate.

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, amendments would be needed to §§ 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 revenue generated from the additional tax authorized by this bill will be dedicated to education with one-half distributed among all counties and cities based on point of sale, and the other half shall be appropriated by the General Assembly for higher education in the Commonwealth.

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.

Under the provisions of this bill, one half of the sales and use tax increase generated would be distributed for public school purposes. However, the distribution would be based upon point of sale, not the current formula based on school population.

The other half of the sales and use tax increase would be allocated for public school purposes.

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 1052 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 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.

House Bill 1270 would increase the state sales and use tax one-half percent, from 3½ percent to 4 percent. Revenues from the increase 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 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 to support operating costs, and 75% would be dedicated to various four-year public institutions of higher education with recommendations of the Joint Subcommittee for Higher Education Funding Policies.

cc: Secretary of Finance

Date: 2/3/2004 WBS