

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** James M. Scott

2. **Bill Number** HB 1366

3. **Committee** House Finance

House of Origin:

 X **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 by one-quarter percent, from 3.5% to 3.75%. All revenues generated as a result of the increase authorized by this bill would be dedicated to higher education with 25% distributed to the Virginia Community College System to support operating costs, and 75% will be dedicated to various four-year public institutions of higher education in accordance with the recommendation of the Joint Subcommittee for Higher Education Funding Policies.

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	\$181.8 million	GF
2005-06	\$208.2 million	GF
2006-07	\$217.4 million	GF
2007-08	\$227.2 million	GF
2008-09	\$237.9 million	GF
2009-10	\$249.2 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 systems development, forms development, printing and postage. 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 proposal in the Governor's tax reform plan.

Revenue Estimates

Compared to current law, state revenue is expected to increase \$181.8 million in FY 2005, \$208.2 million in FY 2006, \$217.4 million in FY 2007, \$227.2 million in FY 2008, \$237.9 million in FY 2009, and \$249.2 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 one percent, as opposed to the one-quarter 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.

Fiscal Year	Effect of HB 1366 on General Fund Revenue	General Fund revenue effect of similar provisions in the Governor's tax reform proposal	Difference between HB 1366 and similar provisions in the Governor's tax reform proposal
2005	\$181.8 million	\$727.1 million	(\$545.5 million)
2006	\$208.2 million	\$832.6 million	(\$624.4 million)
2007	\$217.4 million	\$869.5 million	(\$652.1 million)
2008	\$227.2 million	\$908.8 million	(\$681.6 million)
2009	\$237.9 million	\$951.8 million	(\$713.9 million)
2010	\$249.2 million	\$996.7 million	(\$747.5 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 will 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 revenue generated from the additional tax authorized by this bill will be dedicated to higher education with 25% distributed to the Virginia Community College System to support operating costs, and 75% distributed to various four-year public institutions of higher education with the recommendation of the Joint Subcommittee for Higher Education Funding Policies.

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 1286 would increase the state sales and use tax one percent, from 3.5% to 4.5%. 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.

cc: Secretary of Finance

Date: 2/3/2004 Initials