

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** Adam P. Ebbin

3. **Committee** House Finance

4. **Title** Local Income Tax

2. **Bill Number** HB 1399

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would amend the local option income tax to allow any county or city to impose a local income tax at a rate of one-tenth of one percent upon Virginia taxable income in excess of \$17,000. This bill would also eliminate (i) the referendum requirement for the enactment of the local income tax, and (ii) the current restriction that revenue from the local income tax must be spent solely on transportation. In addition, this bill would repeal the sales tax on food.

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	\$368,465	GF
2004-05	\$327,520	GF

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

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$0	GF
2004-05	<\$252.9 million>	GF
	<\$52.3 million>	TTF
	<\$104.5 million>	Local
2005-06	<\$283.1 million>	GF
	<58.5 million>	TTF
	<\$117.0 million>	Local

2006-07	<\$290.5 million>	GF
	<\$60.0 million>	TTF
	<\$120.0 million>	Local
2007-08	<\$297.8 million>	GF
	<\$61.5 million>	TTF
	<\$123.1 million>	Local
2008-09	<\$305.3 million>	GF
	<\$63.1 million>	TTF
	<\$126.1 million.	Local
2009-10	<\$313.0 million>	GF
	<\$64.7 million>	TTF
	<\$129.3 million>	Local

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

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**8. Fiscal implications:**

Administrative Impact

The Department would incur administrative costs of \$368,465 for Fiscal Year 2004 and \$327,520 for Fiscal Year 2005 for the repeal of the sales tax on food. Passage of the local income tax provisions of this bill would not result in the Department incurring any administrative costs unless localities adopt a local income tax. If every locality in the Commonwealth adopted a local income tax, effective on January 1, 2005, then the Department would incur additional administrative costs of \$473,307 for Fiscal Year 2004, \$1,187,925 for Fiscal Year 2005, \$663,830 for Fiscal Year 2006, \$239,930 for Fiscal Year 2007, \$225,505 for Fiscal Year 2008, \$229,736 for Fiscal Year 2009, and \$234,098 for Fiscal Year 2010 for systems development and forms revisions.

Some of the administrative costs that the Department would incur as a result of this bill are similar to some of the costs for the sales tax 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 tax proposed in the Governor's tax reform plan.

Revenue Impact

Compared to current law, this bill is estimated to decrease General Fund revenues by \$252.9 million in Fiscal Year 2005, \$283.1 million in Fiscal Year 2006, \$290.5 million in Fiscal Year 2007, \$297.8 million in Fiscal Year 2008, \$305.3 million in Fiscal Year 2009, and \$313.0 million in Fiscal Year 2010.

The net fiscal impact of this bill on localities would vary by locality. The provisions of this bill that repeals the sales tax on food would have a negative impact on local tax revenues. To the extent localities choose to enact the local income tax authorized by this bill, this negative impact on local revenues would be offset. Based on taxable year 2001, if every locality imposed a one-tenth of one percent local income tax there would be a total revenue gain of \$86.8 million per year.

The Executive Budget assumes the passage of the Governor’s tax reform proposal. The Governor’s tax reform proposal contains provisions that would reduce the food tax rate by 1% on July 1, 2004, and an additional 0.5% on July 1, 2005. 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 the similar provisions in the Governor’s tax reform proposal.

<b>Fiscal Year</b>	<b>Effect of HB 1399 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 1399 and similar provisions in the Governor’s tax reform proposal</b>
2005	(\$252.9) million	(\$101.2) million	(\$151.7) million
2006	(\$283.1) million	(\$165.1) million	(\$118.0) million
2007	(\$290.5) million	(\$174.3) million	(\$116.2) million
2008	(\$297.8) million	(\$178.8) million	(\$119.0) million
2009	(\$305.3) million	(\$183.2) million	(\$122.1) million
2010	(\$313.0) million	(\$187.8) million	(\$125.2) million

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

Department of Taxation  
All Virginia Cities and Counties

**10. Technical amendment necessary: No.**

**11. Other comments:**

**Local Income Tax**

**Current Law**

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individual residents of the localities and corporations, estates, and trusts with income from sources within the localities. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts and corporations at any increment if one-quarter percent up to a maximum rate of one percent above the state income tax rate. Counties and cities can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes.

No city or county currently imposes the local income tax.

#### Proposed Change

This bill would amend the local option income tax to allow any county or city to impose the individual income tax at a rate of one-tenth of one percent upon Virginia taxable income in excess of \$17,000. In addition, this bill would eliminate the referendum requirement for the enactment of the local income tax, and the restriction that revenue from the local income tax must be spent solely for transportation purposes.

#### **Sales Tax on Food**

##### Current Law

Legislation enacted during the 1999 General Assembly session established the Food Tax Reduction Program. This program reduces the state sales and use tax rate on food products purchased for human consumption by 2% over a four-year period. Currently, the food tax is stalled at 4.0% due to certain revenue requirements enacted under the original plan.

##### Proposed Change

This bill would repeal all sales and use tax on food including the portion of the sales tax dedicated to the Transportation Trust Fund, the portion dedicated to local governments based on school age population, and the local option sales tax.

cc : Secretary of Finance