

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

1. **Patron** Lynwood W. Lewis, Jr.

2. **Bill Number** HB 1464

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Personal Property Tax: Exemption for Farm
Property and Products

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would exempt all farm property and products from taxation pursuant to Article X of the Constitution of Virginia. Beginning in calendar year 2005, the bill would require that the Commonwealth appropriate monies to each locality equivalent to the amount of revenue each locality raised from the taxation of farm products and property in the 2003 calendar year.

The provisions of this bill would become effective January 1, 2005.

6. No Fiscal Impact

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

8. Fiscal implications:

This bill would have a negative revenue impact on the Commonwealth. The bill would require the state to replace a local revenue stream from the General Fund. While the amount of the negative revenue impact is unknown, it would be significant. There would be additional administrative costs to the state agencies responsible for administering the distribution of the funds.

9. Specific agency or political subdivisions affected:

Department of Accounts
Department of Taxation
Department of Planning and Budget
All localities

10. Technical amendment necessary: Yes

In order to correct an incorrect reference to the proper subsection of the *Constitution of Virginia*, the following technical amendment is suggested:

Page 1, Line 13, After: Section
Strike: 6(f)
Insert: 6(e)

11. Other comments:

Article X §1 of the *Constitution of Virginia* provides that “all property, except as hereinafter provided, shall be taxed.” Article X § 6 provides for the only exemptions from taxation. Section 6(e) provides that the General Assembly may define household goods, personal effects and tangible farm property and products as a separate subject for taxation. Under this subsection the General Assembly may authorize localities to exempt, or to partially exempt such property from taxation. The General Assembly may also, by general law, provide for the exemption or partial exemption of such property.

Virginia Code § 58.1-3505 provides for one of the three special authorizations for localities to exempt or partially exempt the properties enumerated in Article X § 6(e) of the *Constitution of Virginia*. It provides for the special classification of farm animals, grains and other feeds used for the nurture of farm animals, farm machinery, and farm implements and equipment for purposes of tangible personal property taxation. Under this section, localities may provide, by ordinance, for the exemption, partial exemption, or a special rate of taxation on any or all of the goods in this classification. Localities also may elect to tax any or all of these items at a rate not to exceed the rate applied to the general class of tangible personal property.

This bill would require localities to exempt all such property effective January 1, 2005. Those localities with significant farming industry would benefit from this bill in that to the extent that they impose the tax, they would be relieved from the burden of administration of the tax.

The Commonwealth would be required to reimburse only those affected localities in the **amount** of local tax revenue generated in tax year 2003 by the tangible personal property tax on farm property and products as defined in *Virginia Code* § 58.1-3505(A). This bill only refers to the actual amount of revenue. It makes no provisions for adjustments for inflation; therefore in future years, the affected localities could experience a decrease in revenue in terms of real dollars.

An administrative mechanism would have to be created to effectuate the reimbursement. However, this bill does not specify which state agency/ agencies would be responsible for administering this local reimbursement process.

cc : Secretary of Finance

Date: 1/31/2004/SLR