

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Clifford L. Athey, Jr.

2. **Bill Number** HB 458

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax and Retail Sales and Use Tax: Repeals the Individual Income Tax and Increases the State Sales and Use Tax

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would repeal the individual income tax and increase the state sales and use tax five percent, from 3.5% to 8.5%. This bill would also reduce the percentage of dealers discount Virginia allows to compensate registered dealers for collecting and remitting the sales and use tax on behalf of the Commonwealth. This bill would also repeal the Accelerated Sales Tax Program.

The changes proposed in this bill are effective on and after January 1, 2006, provided the bill is passed by the 2004 General Assembly and re-enacted by the 2005 session of the General Assembly.

6. **No Fiscal Impact** (See Line 8.)

6. **Budget amendment necessary:** No.

8. **Fiscal implications:**

Administrative Costs

The Department would not incur any administrative costs as a result of this bill. If this bill is reenacted during the 2005 session, the Department would incur administrative costs of \$58,900 in FY 2005 for forms revision, postage and printing, \$253,700 in FY 2006 for systems development and wages, and \$107,600 in FY 2007 for systems development.

Revenue Estimates

Enactment of this bill would have no impact on General Fund revenues as it must be reenacted during the 2005 session. If this bill is reenacted, the net revenue loss would consist of the gains in the state sales and use tax (including tax on food for home consumption and reduced rates on dealer discounts), and the losses associated with the

repeal of the individual income tax. The chart below shows how these amounts were determined:

<u>Year</u>	<u>Sales Tax Gain</u>	<u>Income Tax Loss</u>	<u>Total Net Revenue Loss</u>
2005-06	\$1.558 billion	(\$4.369 billion)	(\$2.811 billion)
2006-07	\$4.379 billion	(\$8.585 billion)	(\$4.206 billion)
2007-08	\$4.577 billion	(\$8.978 billion)	(\$4.401 billion)
2008-09	\$4.793 billion	(\$9.563 billion)	(\$4.770 billion)
2009-10	\$5.020 billion	(\$10.052 billion)	(\$5.032 billion)

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Accounts
All localities

10. Technical amendment necessary: No.

11. Other comments:

Generally

This bill would eliminate the individual income tax, repeal the accelerated sales tax provisions, reduces the rate of the dealers discount for registered sales and use tax dealers, and increases the state sales and use tax rate by 5%.

Forty-two states and the District of Columbia impose a broad-based individual income tax. For FY 2002, the Virginia individual income tax accounted for 70% of the revenue collected by the Department of Taxation.

Forty-six states and the District of Columbia impose a sales and use tax. Virginia currently has the second lowest combined state and local sales tax rate in the nation. With the 1% local sales tax, if this bill is enacted, Virginia would have a combined state and local tax rate of 9.5%. The sales tax increase proposed by this bill would rank Virginia as the state with the highest combined state and local sales tax rate.

Food Tax Reduction Program

There is no provision in this bill that would exempt food for home consumption from the additional 5% state sales and use tax imposed in this bill.

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 as a result of this increase would be distributed among all localities based on point of sale and the other half shall be used for higher education.

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